Austria	Sch22	Indonesia	Rp3100	Philippines	Peso40
Bahrain	Din0.650	Iran	Rls150	Portugal	Esc120
Belgium	BFr48	Israel	NIS3.50	S.Arabia	Rls7.00
Canada	C$1.00	Italy	L1700	Singapore	S$4.10
Cyprus	C£0.90	Japan	Y600	Spain	Pta145
Denmark	DKr10.00	Jordan	Fils500	Sri Lanka	Rup30
Egypt	E£2.25	Kuwait	Fils500	Sweden	SKr9.00
Finland	Fmk7.00	Lebanon	L£250.00	Switz	SFr2.30
France	FFr7.00	Lux	LFr48	Taiwan	NT$65
Germany	DM2.30	Malaysia	Rm4.25	Thailand	Bt50
Greece	Dr120	Mexico	Pes300	Tunisia	Din0.600
Hong Kong	HK$12	Morocco	Dh6.00	Turkey	L400
Iceland	Kr125	Neth	Fl3.00	UAE	Dh6.50
India	Rup15	Norway	NKr10.00	USA	$1.00

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

No.30,693 Monday November 14 1988 D 8523 A

BP SHARE SALE
Paying the price of optimism
Page 21

World News

Hopes high for deal on Namibian independence

An agreement on independence for Namibia and the withdrawal of Cuban troops from Angola can be reached at the Geneva peace talks if the present rate of progress is maintained, a senior US official said.

It is the most authoritative and optimistic assessment of the prospects for a regional peace package since the current negotiating process began in London last May. Earlier story, Page 3

Likud coalition deal

Israeli Premier Yitzhak Shamir won sufficient support from the country's religious parties to be able to form a coalition government. Earlier report, Page 3

Setback for Kohl

Helmut Kohl, West German Chancellor, suffered another political setback with the resignation of Bernhard Vogel, Christian Democrat (CDU) Prime Minister of Mr Kohl's home state of Rhineland Palatinate. Page 2

Minister quits

Agamemnon Koutsogiorgas, Greek Minister of Justice, has resigned over the scandal involving fugitive banker and press baron George Koskotas, who was charged last month with embezzlement and foreign currency fraud. Page 3

Hungary party thaw

Hungary will permit new political parties to be established after 1990, provided they accept the "primary role of socialism", Hungarian Communist Party spokesman said. Page 2

Burma rejects rights

Burmese Government turned down demands for restoration of civil liberties and human rights from a group of newly formed political parties, saying they would plunge the country "back into the chaos and lawlessness of the recent past." Page 3

Afghan offensive

Afghan troops retook a vital highway linking Afghanistan with neighbouring Pakistan and killed about 70 rebels, official Kabul radio said.

Seoul demo

An estimated 30,000 people marched through Seoul, demanding better working conditions and the arrest of former President Chun Doo Hwan, charged with massive corruption, brutality and abuse of power during his eight-year rule.

Niger poll promise

Niger will hold legislative and presidential elections within a year – the first since a military takeover in 1974 – but the armed forces will retain a firm grip on politics, President Ali Saibou said.

Aquino rebuke

Corazon Aquino, Philippine President, rebuked army officers for allowing the second escape this year of Romulo Kintanar, commander-in-chief of the New People's Army (NPA), and the military fired the prison commander involved. Page 6

Resignation denied

Azem Vlasi, member of Kosovo's Communist Party Politburo and prominent Albanian leader in the Yugoslavian province, denied reports that he was planning to resign under pressure from Serbian leaders.

Paper strike threat

Workers at Turkey's private paper factories will strike tomorrow if their demands for pay rises of up to 360 per cent are not met, a union official said. The country's state-run factories have been hit by strikes since September 6.

Royal rift ruling

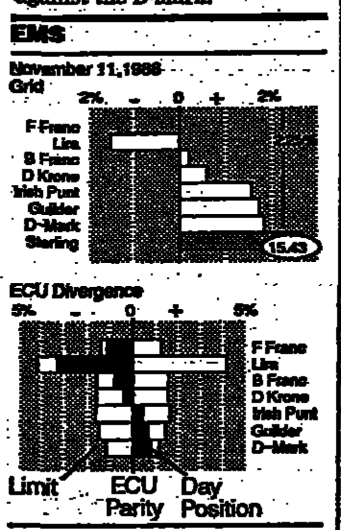
A Paris court will rule this week on an issue which has divided ancient royal dynasty – whether Alphonse de Bourbon, Duke of Cadiz and cousin of King Juan Carlos of Spain, or Prince Henri of Orleans, is the real Duke of Anjou, heir to the vacant throne of France.

Business Summary

Mitsubishi considers 100 European projects

MITSUBISHI Corporation, Japan's largest trading house, is considering about 100 projects for investment in Europe, mostly in manufacturing and distribution, as part of a plan to diversify worldwide. Page 22

EUROPEAN Monetary System: The West German D-Mark improved within the EMS last week, helped by weakness of the US dollar. The French franc consequently finished on a softer note against the D-Mark but remained within its cross-rate limit. The Italian lira was also weaker and broke through key support levels against the D-Mark.



The chart shows the two constraints on European Monetary System rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (Ecu), a basket of European currencies.

NEXT WEEK: Wednesday's US trade figures are expected to dominate financial markets this week. Bad news could further depress an already weakening dollar. Page 23

ITALY: An unexpectedly swift agreement with the Communist opposition has sharply improved the Italian Government's chances of piloting its controversial 1989 budget proposals through Parliament by the end of the year. Page 3

MILK FINES: A political row is coming to the boil in Brussels over allegations that the Italian Government owes the European Community up to Ecu500m ($571m) in surplus milk fines. Page 2

TOKYO: The Tokyo stock exchange was closed for its half-day session on Saturday. World stock markets, Page 41

MEDIOBANCA: Italy's arrangements for privatisation of the largely state-owned bank will enable settlement through two international dealers – a move aimed at quelling international investors' fears about the Milan Stock Exchange's settlements capacity. Page 27

SEMICONDUCTORS: The growth rate of the European semiconductor market is expected to slow sharply next year, after showing an increase of almost 25 per cent in 1988. Page 3

KOOR: A recovery plan being presented by Israel's Koor Industries, the deeply troubled conglomerate, to its creditors calls for a two-year write-off by Israeli banks of loans equivalent to $94m. Page 3

MOUNTLEIGH, the UK property company built up by Tony Clegg, may face a takeover bid this week from Italian interests represented by Florio Fiorini and Giancarlo Parretti. Page 28

FINNAIR, Finland's national airline, is to raise FM255m ($60.7m) in a issue which will dilute the state's stake from 76 per cent to 70.

KOREAN laws on cross-holdings by big businesses in subsidiaries may have to be changed if a rescue plan for Daewoo Shipbuilding and Heavy Machinery is to go through. Page 27; Daewoo Northern Ireland plant, Page 12

VENEZUELA'S oil export revenues will fall this year by about $2bn as a result of lower oil prices on international markets, Julio Cesar Gil, the Venezuelan Minister of Energy and Mines, said. Page 3

CHINA and Saudi Arabia and are to open commercial offices in each other's capitals following an agreement signed in Washington. Page 5

PLO poised to back UN Mid-East peace resolution

By Andrew Gowers in Algiers

LEADERS of the Palestine Liberation Organisation were poised last night to take a major step towards removing the obstacles to their involvement in Arab-Israeli peace negotiations by endorsing a key United Nations resolution on the Middle East conflict.

After two days of intense debate at a meeting of the Palestine National Council, the PLO's highest decision-making body, the organisation's leadership was preparing to call a vote today on a policy statement approving UN Security Council Resolution 242 of 1967 as the basis for an international Middle East peace conference, and simultaneously calling for guarantees of the Palestinians' national and political rights.

The statement, however, is almost certain to contain no mention of Israel by name, leaving any recognition of the Jewish state at this stage implicit.

If adopted – and built-in majority support for Mr Yasser Arafat, the PLO chairman, should ensure that it is passed – the statement will mark a significant advance in the PLO's position on Middle East peace negotiations.

Resolution 242, which calls for Israel's withdrawal from territories it occupied during the 1967 war, is regarded by all five permanent members of the Security Council as an indispensable element in efforts to resolve the conflict. Unequivocal acceptance of it is also one of the main conditions which the PLO must fulfil before being allowed to deal with the US.

The resolution has hitherto been opposed by the PLO on the grounds that it deals with the Palestinian problem merely as one of refugees and does not address their aspirations to an independent state.

The wording of the new policy statement, which is expected to be issued tomorrow along with a declaration of independence, was still the subject of detailed haggling last night between Mr Arafat's mainstream Fatah group and hardline Palestinian factions opposed to making unilateral concessions to Israel.

A spokesman for the Marxist Popular Front for the Liberation of Palestine emerged from the negotiations to deny that his group had accepted 242, but he added that the PFLP did not want to cause a split in the organisation – indicating that it would abide by a majority decision.

Another hardline group, the Democratic Front for the Liberation of Palestine, also said it was still opposed to 242, but would not walk out.

According to drafts circulating at the conference, the statement will:

- Reaffirm the PLO's commitment to a comprehensive peaceful settlement of the Arab Israeli conflict and the Palestinian problem.
- Reaffirm the Palestinians' right to an independent state and the right of all states in the region to live in peace, together with the right of exiled Palestinians to return.
- Call for an international conference under UN auspices with the participation of all parties to the conference, including the PLO, together with the five permanent members of the Security Council. This would be "held on the basis of Resolution 242 with the guarantee of the national rights of the Palestinian people, of which self-determination stands in the forefront."
- Reaffirm the PLO's renunciation of terrorism, as stated in Mr Arafat's 1985 Cairo declaration.

The main impetus behind this weekend's deliberations is the 11-month old Palestinian uprising in the occupied territories. The underground leadership of the revolt has been pressing for a decisive move by the PLO to advance the Middle East peace process, and Mr Arafat appears to have turned this constituency to his advantage in his struggle with internal opponents.

A high powered Soviet delegation has also been on hand to urge moderation, reflecting the rapprochement between the superpowers and Mr Mikhail Gorbachev's drive to collaborate with the US in resolving regional conflicts.

Mr Arafat's main purpose is to win Western support for the PLO's position – and in particular to influence the incoming US Administration – by going as far as possible to meet the international community's demands ahead of an address he wants to make to the UN General Assembly in a few weeks' time.

Likud hit by splits, Page 3

Bush to choose advisers in bid to calm markets

By Lionel Barber in Washington

PRESIDENT-elect George Bush is expected to name his top economics team this week in an effort to calm financial markets worried about the next Administration's policies on the dollar and Federal budget deficit.

Bush: financial markets are concerned about his ability to deliver a cut in the US budget deficit without imposing new taxes

Mr Craig Fuller, a senior Bush aide, said putting an economic team in place was a top priority when Mr Bush returns from his post-election vacation in Florida, probably tomorrow. The appointments are likely to be announced "in the next few days," Mr Fuller said.

Among those tipped for senior posts are Mr Richard Darman, a middle-of-the-road Republican, as head of the Office of Management and Budget, and Mr Nicholas Brady, the current US Treasury Secretary, who is expected to stay in the job. But Mr Bush, as he showed with his choice of Senator Dan Quayle as running-mate, is capable of pulling surprises.

Uncertainty about a future Bush Administration's economic policies has sent the value of the dollar plunging against other major currencies, while the stock market has fallen 60 points since the Republican presidential victory last Tuesday.

Mr Fuller ruled out a statement on the dollar, but he disowned remarks by Professor Martin Feldstein, a Bush adviser, who last week repeated that the dollar must fall between 10 and 20 per cent to maintain a reduction in the trade deficit and ensure continuing economic growth.

A senior US Treasury official also distanced the Reagan Administration from Professor Feldstein, saying the remarks had given "false impressions" that the next Administration would tolerate a decline in the dollar. He suggested that Professor Feldstein was "not privy to Bush's plans."

The major source of concern in the financial markets also appears to be the Federal budget deficit and Mr Bush's ability – given his "no new taxes" pledge – to reach agreement on a reduction package with the Democratic majority in Congress.

Late last week, the Administration conceded that the budget deficit was likely to be $132bn in the fiscal year 1990, which begins next October 1. This is $21bn higher than previous official estimates, but almost in line with the Congressional Budget office.

Another top Bush aide, Mr Robert Teeter, stressed in a television interview yesterday that Mr Bush was prepared to work together with the Democratic leadership to cut the deficit, a conciliatory message the Bush camp has tried to get across for the past seven days.

Mr Fuller disclosed that Bush advisers had taken soundings with sources on Wall Street to determine financial markets concern. "Raising taxes is not the answer," he said.

As New York waited for signals from the Bush transition team – which officially begins works today – Washington continued to speculate on the future composition of the Bush Administration.

Already stories have surfaced that Mr James Baker – Mr Bush's first appointment – will not only serve as the next Secretary of State but will also have strong influence over domestic and international economic policy, an area he dominated while White House chief of staff and Treasury Secretary in the Reagan Administration. Some are already calling Mr Baker "deputy president" or "prime minister."

The other main focus is on the White House where there is a talk of a troika led by Mr Teeter, Mr Fuller and Mr John Sununu, the former governor of New Hampshire.

Mr Sununu would be acceptable to the conservative right wing which is concerned to claim its share of the spoils after the Republican presidential victory. Between 4,000 and 5,000 jobs need to be filled.

Lex, Page 22

Italian officials seek deal on rescue of Tuscan bank

By Alan Friedman in Milan

SENIOR ITALIAN bankers and authorities will meet in Rome this week to try to agree a rescue plan for the Cassa di Risparmi di Prato, a Tuscan savings bank that is facing the worst single crisis to befall an Italian financial institution since the 1982 collapse of the late Mr Roberto Calvi's Banco Ambrosiano in Milan.

Information on the extent of the crisis has so far been confused and partial, but the Financial Times has learned that the bank has L1,400bn ($1.08bn) of bad debts on its books, of which L747bn is considered unrecoverable.

According to two bank chairmen involved in rescue talks there has also been a recent run on deposits that has seen the bank's deposit base tumble by a total of 25 per cent.

While the crisis at Prato has been attributed in public mainly to bad debts resulting from the bank's heavy exposure to loss-making local textile companies, it has also been learned that a series of investigations are underway into suspected fraud and embezzlement. For these reasons the affair is being described by top Italian bankers as an extremely serious situation.

The meeting this week among leading members of Italy's new Deposit Guarantee Fund will try to organise a lifeboat. According to a senior bank chairman failure to come up with a rescue plan would mean that the bank could face liquidation.

The current rescue being discussed would see the injection of L1,100bn of capital, which together with the remaining L300bn of bank reserves would cover the total L1,400bn of bad debts.

Some L650bn of the new capital would come from the Guarantee Fund, while a further L350bn would come from a group of savings banks and a final L100bn would come from a pool of six banks – Banca Nazionale del Lavoro (BNL), San Paolo di Torino, Monte dei Paschi di Siena (MPS), Crediop, IMI and Banca Commerciale Italiana.

BNL, the biggest bank in Italy, is reluctant to get involved in the rescue and Mr Nerio Nesi, the BNL chairman, said he found the whole idea of his bank's involvement "enormously perplexing." The Bank of Italy, meanwhile, is working behind the scenes to try and ensure an orderly rescue.

The situation is so delicate that the government officials and bankers interviewed for this article asked not to be quoted by name. "We are facing a very serious matter, what with huge bad debts, possible crime and the first-ever test of the new Guarantee Fund. The aim is to avoid a panic among depositors," explained the chairman of one of Italy's biggest banks, who is actively involved in leading the rescue effort.

Bank of Italy supervisors have conducted three inspections at Prato since 1986. The central bank first succeeded in getting top executives replaced, then managed to organise a L200bn emergency

Continued on Page 22

Dubcek cuts back planned speech

By John Wyles in Rome

MR Alexander Dubcek's first public speech since Soviet tanks deposed him as Czechoslovak Communist Party leader 20 years ago appeared yesterday to be an sensitive testimony to the dangers of making frontal attacks on the country's present leadership.

In front of a large audience in the great hall of Bologna University, Mr Dubcek chose to deliver only four of the 12 pages of a speech distributed in advance on Saturday evening. As a result, his audience of leading Italian politicians could read in Italian, but did not hear in Slovak, Mr Dubcek's brief but weighty criticisms of the Prague regime.

During the ceremony, 67-year-old Mr Dubcek frequently wiped tears from his eyes. On paper, his address was an unambiguous affirmation of human and democratic values with not a touch of regret

Continued on Page 22

Next Soviet five-year plan will set seal on Gorbachev reforms

By Quentin Peel and John Lloyd in Moscow

THE NATURE and structure of the five-year plans which have governed the Soviet economy over the past 60 years will be radically altered in the 13th plan, now under preparation, and will run from 1990 to 1995.

Economists and officials now wrestling with it are proposing no less than a shift from a system which directly intervenes in production and trading decisions in the closest detail, to one in which the plan indicates general policies in the style of Western mixed economies.

Dr Leonid Abalkin, head of the economics institute of the Soviet Academy of Sciences and one of the key economic advisers to the Soviet leadership, told the Financial Times that "government will have more the function of regulation than of planning."

This would mark a momentous break with past practice from the Stalin period through to the present, and is intended to set the seal on Mr Mikhail Gorbachev's economic reforms.

However, Academician Abalkin and fellow reform-minded economists, like Academician Abel Aganbegyan, who are close to the Soviet leader, still have to persuade an entrenched planning bureaucracy, and overcome years of ingrained thinking and practice depending entirely on centralised direction, to have their way.

The present plan, though beginning in 1985, the same year in which Mr Gorbachev assumed leadership, was prepared before he was General Secretary and reflects the "command-management" methods now under sustained attack. Dr Abalkin and his colleagues have so far failed to get it scrapped.

The forthcoming 13th plan will thus be the first "Gorbachev" product, and the test of the reform process will be how closely it is shaped by the thinking and proposals of the reform-minded economists.

Dr Abalkin said that the new plan "would not run from top to bottom. It must not be vertical, it must be horizontal – the impetus for it would come in the first instance from the consumers." He appears to envisage a sustained colloquy between state enterprises and the public on consumer desires, the results of which would then be fed into production and other decisions.

He said the state would retain control of policy on pricing, taxes, interest rates and other macro-economic levers, and use them as such. The plan would contain "a system of aims and priorities," for example, raising the priority of housebuilding.

It would also be concerned directly with large-scale state investment decisions, such as prospecting for oil in the Arctic Ocean. For much of the rest of the economy – on the hori-

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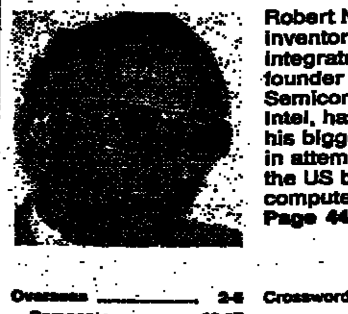

Robert Noyce, co-inventor of the integrated circuit, founder of Fairchild Semiconductor and Intel, has taken on his biggest challenge in attempting to put the US back on top of computer research Page 44

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OVERSEAS NEWS

Kremlin warns Baltic national movements

By Quentin Peel in Moscow

RESURGENT nationalist movements in the Soviet Union's three Baltic republics were sharply warned by the Kremlin this weekend: stick to the path of Socialism, and do not try to exploit ethnic rivalries.

The tough line was laid down in three simultaneous visits to Estonia, Latvia and Lithuania by top members of the ruling Communist Party Politburo. The three were clearly seeking to head off a growing rebellion over constitutional reform by the once-independent republics.

It showed just how seriously Mr Mikhail Gorbachev and the Communist Party leadership is taking nationalist talk in the Baltic region - more seriously than the party propaganda machine - and yet how keen they are to maintain the reformist enthusiasm of the one area in the country where perestroika (restructuring) is working best.

At the same time, the three Politburo members - the former KGB chairman Mr Viktor Chebrikov, in Estonia; the ideology chief Mr Vadim Medvedev, in Latvia, and Mr Nikolai Slyunkov, economics overlord, in Lithuania - were exposed for the first time to the outspokenness and often sharp criticism of the ruling party which has burst into the open in the region.

Their urgent mission comes as the Estonian Supreme Soviet - a once-docile body dominated by the Communist Party - is about to hold an emergency session called on to reject Mr Gorbachev's constitutional reforms.

Supporters of the Estonian Popular Front for Perestroika say that far from providing more democracy, the reforms would reinforce the power of Moscow over its far-flung regions.

In a bid to head off the criticism, the Central Committee in Moscow has announced that its long-promised plenum on national relations, including the balance of power between the USSR and the individual republics, would definitely be held in mid-1989.

None the less, all three Politburo members faced tough questioning in factory and farm collective meetings this weekend, and heard harsh criticism both of the former party leadership in the region, and of the erosion of national identity by Russian migration and imposition of the Russian language in the bureaucracy.

The clearest reaction came from Mr Medvedev - the man just promoted straight into the Politburo to rethink party ideology - in Riga, the Latvian capital, where he set out clear limits to the new-found emancipation.

"The Soviet Communist Party will continue its course of openness and criticism," he said.

"But now, stormy discussions and meetings must be replaced by practical action. A whole array of problems, feelings and opinions have burst forth. Some excesses and negative tendencies have come to the surface.

"The fundamental values of our society, our achievements, are being eroded. Some people are trying to question the correctness of the Socialist way of development chosen by the Soviet peoples, and have a wrong understanding of interethnic problems, and a superficial and biased approach to some historical facts."

He warned Communist Party workers not to allow non-party members to take the lead. He also warned the media against "losing their sense of responsibility for their words". The "complex history of Latvia over the last decades is pictured only in dark tones."

In Tallinn, the Estonian capital, Mr Chebrikov chose to warn workers against demanding too much economic autonomy - the minimum demand of the Baltic nationalist movements.

He lectured them on the inter-dependence of the Soviet economy, warning ominously: "One can achieve sovereignty, but one can lose everything else. One must look at life in a realistic, interconnected way."

One of the resolutions on a draft agenda for Wednesday's meeting of the Estonian parliament is precisely to "declare the sovereignty of the Estonian people" and demand a constitutional veto right on Soviet legislation passed in Moscow, according to officials of the Popular Front.

The officials were meeting yesterday to decide their tactics for the forthcoming session.

Rome and Brussels at odds on surplus milk fines

By Tim Dickson in Brussels

A POLITICAL row is coming to the boil in Brussels over allegations that the Italian Government owes the European Community up to Ecu 200m (£131m) in surplus milk fines.

The problem – likely to flare up at a meeting of EC agriculture ministers in Brussels this week – has arisen because of the early failure of the Rome authorities to apply the tough system of dairy quotas introduced throughout the Community in 1984.

Under the rules of the regime, EC farmers are permitted to produce only a fixed quantity of milk and have to pay a stiff penalty if they exceed their limit. The superlevy, as the sanction is known, is currently set at 100 per cent of the market value of the milk and in recent years has proved a highly effective means of curbing over-production in the sector.

The European Commission has long been unhappy about Italy's refusal to administer the quota scheme properly and has already shown its concern by taking the matter up in the European Court of Justice. The Court found in favour of Brussels in a ruling last year and specifically called on Rome to mend its ways and meet its obligations under EC law.

The question at the moment, however, is the amount of accumulated superlevy which should have been paid in the early years of the system. Recent calculations by the Commission are understood to have been hampered by a lack of reliable information on the extent of over-production in Italy since 1985 and the figure of Ecu 180m-200m has been deliberately based on some fairly harsh assumptions.

Discussions between Brussels and Rome have so far failed to resolve the issue, which some say has become linked to quite separate political negotiations among the member states over how to compensate tens of thousands of northern European milk farmers (known quaintly as SLOM producers) unfairly deprived of milk quotas at the outset of the scheme in 1984.

In an attempt to meet the claims of these farmers the Commission tabled proposals over the summer for the creation of an additional 500,000 tonnes of milk quota, to be financed by a 2 per cent cut in the guaranteed intervention price for butter.

Along with other Mediterranean states, Italy opposes this solution on the grounds that its producers should not have to "pay" for the SLOM problem when it was not of their making. Much to the irritation of the Commission and other member states, the Italians have been hinting that they could overcome their reserve at this week's meeting in return for at least a partial waiving of their unpaid fines.

"We would certainly like this to be sorted out in parallel with the SLOM issue but we don't see why it should be part of a package," one senior Commission official indicated at the weekend. "There is a lot of resentment from those member states which have applied the quota scheme fairly and whose farmers have had to suffer cutbacks as a result."

An Italian government spokesman said last night that milk quotas were not applied in 1985 and 1986 because of the fragmented nature of the local dairy industry.

Agreement clears path for Italian budget

By John Wyles in Rome

AN unexpectedly swift agreement with the Communist opposition has sharply improved the Italian Government's chances of piloting its controversial 1989 budget proposals through Parliament by the end of the year.

Work in the lower house, the Camera, was virtually paralysed for most of last week as the Communists exploited their right of veto over procedural changes.

Unexpectedly, the two sides came to an agreement on Friday which will allow faster passage for the 13 special items of budget legislation needed to achieve the Government's target of a L117,300bn (£50bn) budget deficit next year.

Spokesmen for the coalition said the Communists had climbed down when they realised the Government would bring in the budget by special decree and so require Parliament to approve the measures within 60 days.

This threat has been given more potency by the recent abolition of secret voting on the budget, as the Government could be reasonably confident of sustaining the budget-by-decree broadly as it is written. This would have left little scope for the horsetrading which can make an opposition feel important.

The Communists claim that concessions already wrung out of the Government include more parliamentary time to discuss budgetary amendments and a government promise to spend up to L2,000bn more on pensions, the environment and an anti-drugs campaign.

The Treasury has denied any such deal.

Algeria acts to defuse discontent

THE new Algerian government led by Prime Minister Kasdi Merbah has presented the national assembly with an emergency programme designed to defuse discontent which sparked rioting last month, Reuter reports from Algiers.

The official news agency APS said the assembly would start debating the programme today. It will be the first time since independence in 1962 that elected representatives will have a chance to express their opinions on policies.

Under a constitutional change adopted by referendum on November 3, the Prime Minister is now answerable to the national assembly instead of the ruling National Liberation Front party as before.

The programme gives priority to the younger generation and the unemployed, APS said.

Bernhard Vogel: setback

Kohl hit by state PM's resignation

By David Marsh in Bonn

MR HELMUT KOHL, the West German Chancellor, has suffered another political setback with the resignation of Mr Bernhard Vogel, Christian Democrat (CDU) Prime Minister of Mr Kohl's home state of Rhineland Palatinate.

Mr Vogel, who has been premier of the state in south-west Germany since 1976, said he would stand down next month after being ousted from the Christian Democrats' party chairmanship in Rhineland Palatinate by dissatisfied CDU delegates on Friday evening.

Mr Vogel's decision to quit came hard on the heels of the departure on Friday of another long-time Kohl stalwart, Mr Philipp Jenninger, the president of the Bundestag, forced out of office after the uproar over his speech on anti-Jewish persecution on Thursday.

Mr Vogel, who had chaired the CDU in the state since 1974, was outgunned at a CDU party conference by Mr Hans-Otto Wilhelm, the Rhineland Palatinate Environment Minister. The vote against Mr Vogel – the first time in the history of the Federal Republic that a state premier has been removed by a conference decision – was a surprisingly large 258 to 189.

Mr Vogel's successor as Prime Minister has yet to be decided, as Mr Wilhelm, the new chairman of the party, has insisted that the jobs of party chairman and state premier should be separated. The SPD opposition in Rhineland Palatinate meanwhile called for new elections.

The palace coup reflects growing discontent at Mr Vogel's leadership. It also comes as a personal blow to Mr Kohl, whose success as the CDU's national leader has been built above all on his deft steering of grassroots party opinion. Both Mr Kohl and Mr Heiner Geissler, the CDU national secretary-general, supported Mr Vogel against Mr Wilhelm.

The Chancellor, who left Bonn at the weekend for a short visit to the US, is now preoccupied by the need both to replace Mr Jenninger and to smooth over the upset in his home state.

The CDU registered a sharp fall in the Rhineland Palatinate vote in state elections in 1987, losing an absolute majority held since 1971.

Hungary cautious on new parties

By Leslie Colitt in Berlin

HUNGARY will permit new political parties to be established after 1990, provided they accept the "primary role of socialism", a spokesman for the Hungarian Communist Party said yesterday.

He emphasised that the authorities had not reached any "concrete decision" on the conditions for founding new parties. The spokesman, Dr Istvan Degen, said a lot of misunderstanding existed about a statement made last week by Mr Kalman Kulcsar, the Hungarian Justice Minister.

The Minister was widely quoted as saying that passage by parliament next month of a new law on the right of assembly and association would imply recognition of the multi-party system.

Dr Degen explained that the Justice Minister actually had referred to a future law which would determine the "place and role" of political parties. This law was to be part of a new constitution to be worked out by 1990.

The party spokesman said that instead of the "leading role" of the Communist Party - a phrase which is likely to be dropped from the new constitution - the political parties could be called on to accept the "primary role of socialism".

Asked whether the Communist Party would be guaranteed a majority in a future multi-party system, Mr Degen said that if several parties were working for socialism, then it was not a question of "who has a majority". He also noted that an alliance or coalition of parties could be created.

The Hungarian leadership appears to be contemplating a parliamentary arrangement similar to that being considered in Poland. It would give Poland's existing United People's Party and Democratic Party greater representation in parliament under the "guidance" of the Communist Party.

Mr Imre Pozsgay, the leading political reformer in the ruling Politburo, noted recently that introduction of a multi-party system by means of a spontaneous social movement would dangerously destabilise Hungary. He said this did not exclude the long-term prospect of a multi-party system but in an "organic manner".

Members of the increasingly active Hungarian opposition said yesterday they were not surprised by the Justice Minister's statement.

Mr Ferenc Koszeg, publisher of the political magazine Beszelo, said the leadership apparently wanted to allow political parties to discuss and influence decisions, but not to act against the Communist Party.

He said that a draft electoral law published three weeks ago marked a step towards a corporate parliament in which trade unions and various groups had representatives.

Mr Koszeg said the new electoral law was all-important, as it would stipulate who could propose candidates for elections. The draft law, he noted, was a step back from the one in force in the 1985 elections, as it excludes nominations by individuals.

Another important test of the government's intentions, he added, would come in January. Several independent new associations which in effect were acting as quasi-political parties would have to be approved or turned down in the courts under the new law on assembly and association.

In addition to the Hungarian Democratic Forum which was given a clean bill of health by the party, two independent trade unions and a rival youth league were recently formed. Yesterday an opposition organisation calling itself Network was formally constituted, thus presenting the authorities with yet another headache.

FINANCIAL TIMES

Published by the Financial Times (Europe) Ltd., Frankfurt Branch, represented by E.Hugo, Frankfurt/Main, and, as members of the Board of Directors, F. Barlow, R.A.F. McClean, G.T.S. Damer, M.C. Gorman, D.E.P. Palmer, London. Printer: Frankfurter Societats-Druckerei-GmbH, Frankfurt/Main. Responsible editor: G.D. Owen, Financial Times, Bracken House, Cannon Street, London EC4P 4BY. © The Financial Times Ltd. 1988.

FINANCIAL TIMES, USPS No 190640, published daily except Sundays and holidays. US subscription rates $365.00 per annum. Second-class postage paid at New York NY and at additional mailing offices. POSTMASTER, send address change to: FINANCIAL TIMES, 14 East 60th Street, New York, NY 10022.

Financial Times (Scandinavia) Ltd. Ostergade 44, Copenhagen, DENMARK.

OVERSEAS NEWS

Likud hit by splits in Israeli Orthodox parties

By Andrew Whitley in Jerusalem

DEEP divisions within the ultra-Orthodox religious parties appear to have dashed the right-wing Likud's chances of forming Israel's next coalition government without its main rival, the Labour Alignment.

As this strikes home among the leaders of the two big parties, private contacts aimed at re-establishing another national unity government are gathering pace.

After a first round of consultations with all 15 of the parties which won seats in the parliamentary election on November 1, President Chaim Herzog is expected this week to call formally on either Prime Minister Yitzhak Shamir, the Likud leader, or his Labour counterpart, Foreign Minister Shimon Peres, to form a government.

However, the reformation of the broad coalition which has governed Israel for the past four years, and has lately been a by-word for stultifying deadlock, is most unlikely to be on the same basis as in the past. For a start, Mr Shamir is insisting that he, as head of the largest party, should lead the government for its entire term. According to Likud politicians, here would be no "rotation" with Mr Peres, or equal weighting in the Cabinet or Knesset committees.

Labour is believed to be pressing for the Deputy Premiership, the Defence portfolio, and control over the Finance Ministry – now in Likud hands – so as to be able to save the large number of Labour-linked industries and farms in acute financial difficulties.

But the biggest price that Mr Peres would almost certainly have to pay, if he is to join a Likud-led government, would be the abandonment of his cherished Middle East peace plan. Its centrepiece – an international conference – is bitterly opposed by the right and commands barely lukewarm support within his own party.

Who gets the President's nod, Mr Shamir or Mr Peres, was last night still in doubt, waiting on the outcome of a meeting of the Council of Torah Sages, the chief spiritual authority of the upstart Shas party. On the strength of its six seats in the Knesset, Shas has been playing Labour and Likud off against each other, demanding a string of important official posts.

In turn, the Shas demands have infuriated the second largest ultra-Orthodox party, Agudat Yisrael, and the smaller Degel Hatorah. While Degel Hatorah's two seats appear firmly pledged to Labour, on the basis of its spiritual leader's dovish views, where the five parliamentarians from the messianic nationalist Agudat Yisrael faction will eventually fall remains in doubt.

Agudat Yisrael professes disillusionment with the Likud, its natural ally, because of broken past promises over the tightening up of religious and social legislation. It has, like other ultra-Orthodox parties, been shocked by the hostile response their election success has aroused among secular Israelis, and another reason being considered for siding with Labour rather than Likud is to lessen the public reaction.

Whichever way "the schwartzers" ("those in black"), as other Israelis derogatorily refer to the ultra-Orthodox, decide to swing, both Labour and Likud have committed themselves to supporting a change in the country's Law of Return, or else in the role of the rabbinical courts, which would discriminate against Diaspora Jews from the Reform and Conservative branches of Judaism.

Horrified at the prospective changes, which could open up an enormous split between Israel and the Diaspora, a delegation of US Jewish leaders is due in Israel this week to appeal in person to Mr Shamir and Mr Peres not to go along with the ultra-Orthodox. If the tentative contacts of the past few days between the two leaders' aides come to fruition, they could find themselves pushing on an open door.

Second minister resigns in Greece

By Andriana Ierodiaconou in Athens

GREECE'S Minister of Justice, Mr Agamemnon Koutsogiorgas, has resigned over the scandal involving fugitive banker and press baron Mr George Koskotas, who was charged last month with embezzlement and foreign currency fraud.

He is the second Socialist Government minister claimed by the affair. Last week the Minister of Public Order stepped down after the 34-year old magnate disappeared.

Mr Andreas Papandreou, the Prime Minister, announced yesterday that he would carry out a full cabinet reshuffle this week.

Greece's opposition parties dismissed Mr Koutsogiorgas' move as a tactical manoeuvre. They are pressing for the whole Government to resign and for early elections.

The Bank of Greece, meanwhile, rejected a request by the Justice Minister for an investigation of the efficiency of past central bank inspections of the Koskotas-controlled Bank of Crete.

Mr Dimitris Chalikias, the Bank of Greece governor, said the central bank had repeatedly called for changes in the banking laws to let it penetrate Mr Koskotas' affairs, but the government had ignored or responded inadequately.

Mr Koskotas invoked a confidentiality law to deny central bank investigators information about his personal account at the Bank of Crete, the suspected conduit of irregularities. The Bank of Greece eventually persuaded the Government to suspend Mr Koskotas from the Bank of Crete and launch an audit.

Return to strict apartheid looms

By Anthony Robinson in Johannesburg

BIGOTRY is alive and well and open racism is about to be restored to the status of public policy in the Conservative Party-ruled towns and rural dorps of South Africa.

This is the outcome of a summit meeting of newly elected CP local councillors in Pretoria over the weekend. More than 600 councillors were elected on the CP ticket at last month's municipal elections.

At the closed session, Dr Andries Treurnicht, the Conservative Party leader, reportedly underlined the party's determination to return to old-style apartheid in the 90 or so town and village councils the CP now controls in the Transvaal and the Orange Free State.

As councils prepare to put up the "slegs blankes" or "whites only" signs on municipal property, including toilets and park benches, the newly CP-controlled town council of Boksburg in the Johannesburg industrial suburbs is preparing to close the town's parks and lakeside boating and recreational facilities to non-whites. They were formally opened only two years ago.

Many municipal enterprises, such as swimming baths and parts of the public transport system, have never been de-segregated, even in big cities such as Johannesburg controlled by the ruling national party.

Other privately owned facilities,like cinemas, were opened to all races only after international film distributors threatened to cut off the supply of new films to South African cinema audiences.

Apart from restoring so-called "petty apartheid", local CP councils are preparing to challenge the recently approved law permitting non-whites to do business in central business districts. The aim is not to prevent blacks coming into "white" city centres to shop at white-owned stores but to reduce competition, especially from Indian-owned stores.

Since these districts in many cities were opened to all races, many Indian traders, who formerly ran businesses hidden behind white "front men", moved in to provide a better service and work longer hours.

In many cities like Johannesburg, up to 90 per cent of total business is done with black consumers who either work in the city or flock into the big shops at the weekend in black-owned mini taxis.

Now many white traders face the risk of a black consumer backlash if their councils go ahead with plans to turn the clock back to the days of the classic apartheid of Dr Hendrick Verwoerd.

Under the emergency regulations it is illegal for blacks to call for consumer boycotts of white-owned stores. Several white businesses were crippled by black consumer boycotts before the emergency was re-introduced, especially in the Eastern Cape.

Many of the boycott leaders are still in detention without trial.

But underground black community leaders believe the new race restrictions could again raise tension, especially in the decaying industrial and mining towns east and west of Johannesburg, where the last black revolt began in 1984. Towns on the East rand like Springs and Boksburg, which are surrounded by large black townships, have now fallen to the CP and are in the forefront of moves to turn back the clock.

Hopes high on southern Africa

By Michael Holman in Geneva

HOPES continue to rise for a successful outcome to the south-western Africa peace talks, as delegates have agreed to hold the first plenary session of the four-country talks seeking independence for Namibia and the withdrawal of Cuban troops from Angola.

The plenary, to be chaired by Dr Chester Crocker, the US Assistant Secretary of State for African Affairs, will be attended by delegations from Angola, Cuba and South Africa.

It is scheduled to begin today, although at one stage delegates were preparing to meet last night.

One delegate described negotiations as bringing the parties closer to a settlement than at any time since the US began playing the main mediating role nearly eight years ago, when President Reagan took office.

Since then the US and South Africa have made the granting of independence to Namibia conditional on the withdrawal of Cuban troops from Angola, now numbering 50,000.

Differences among South Africa and Angola and Cuba over the terms of the withdrawal was the main obstacle to a settlement.

Delegates to the Geneva meeting are discussing a US compromise proposal. South African officials have already said they are prepared to respond "flexibly" to the US terms, which call for the departure of four fifths of the Cuban forces within 18 months.

Although most delegates express optimism about the eventual outcome, they now believe a further round of talks may be necessary before a formal conclusion to the negotiations, which would take place in the Congolese capital of Brazzaville.

Since the talks began on Friday, Dr Crocker has been holding a series of bilateral exchanges with the three delegations.

Delegates have also been meeting Mr Martti Ahtisaari, the Finnish diplomat who will head the 7,500-strong UN team which would preside over Namibia's seven-month transition to independent elections.

South Africa has already agreed in principle to the terms of this transition, set out in UN Resolution 435, drawn up in 1978.

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Venezuela's oil export revenues to fall by $2bn

By Joseph Mann in Caracas

VENEZUELA's oil export revenues will fall this year by around $2bn (£1.1bn) as a result of lower oil prices on international markets, according to the Venezuelan Minister of Energy and Mines, Mr Julio Cesar Gil.

Last year Venezuela's petroleum exports totalled $9.1bn, compared with $7.6bn in 1986 and $13.1bn in 1985.

One of Venezuela's nationalised oil companies, Corpoven, has revealed it had made an important discovery of crude oil in the eastern state of Monagas. Corpoven said an exploratory well called Carite Norte 1-X was producing over 10,000 b/d of 25 degree API crude oil

Koor recovery plan calls for Israeli banks to write off $94m

By Andrew Whitley

A NEW recovery plan being presented by Israel's Koor Industries, the deeply troubled conglomerate, to its creditors calls for a two-year write-off by Israeli banks of loans equivalent to $94m (£52m).

No similar debt cancellations are being requested of foreign creditors.

Copies of the 250-page turnaround programme, essential to Koor's survival in its present form, will land on the desks of its US and West European bankers this morning, just 72 hours before the group's lawyers return to the Tel Aviv District Court, to respond to a liquidation request made by Bankers Trust of New York.

Despite the high demands being made of them, the first response from the Israeli banks has been one of relief. "It looks like a logical mix of internal changes and external demands," one senior banker commented last night.

Among its other key points are:

- The shedding of 7,200 more employees over the next two years, partly through redundancies and partly through the disposal of unwanted units.
- A concentration of Koor's activities on five core areas: electronics, chemical products, foodstuffs, construction materials and metals.
- The immediate provision by the Government of $50m in new working capital, in the form of a capital note.

Given by Koor to the Financial Times yesterday, the recovery plan highlights the heavy, non-recurring expenses which will be required if it is to succeed. These are forecast to reach the shekel equivalent of $350m over the next two years, of which half would be accounted for by severance payments.

In consequence, anticipated net losses over the same period are being revised upwards. For 1988, the after-tax loss is now forecast at Shekels 221m ($77m), compared with $253m (£140m) last year. If all goes well, the leading Israeli group hopes to show a healthy operating profit in 1989 and to be back in the black the year after.

Buoyed by the unexpected welcome he received on Friday from the presidents of the big Israeli banks, Mr Benjamin Gaon, Koor's chief executive, is hopeful of a similar vote of confidence from most of his foreign creditors before Thursday's court appearance.

If this is forthcoming, Koor is expected to ask the court for a further delay in responding to Bankers Trust.

Semiconductor sales 'to slow'

By Terry Dodsworth, Industrial Editor

THE growth rate of the European semiconductor market is expected to slow sharply next year, after showing an increase of almost 25 per cent in 1988.

Figures from Motorola, the US semiconductor maker with a big base in Western Europe, indicate a 10.7 per cent increase in chip sales next year, with the Italian market showing a particularly sharp expansion of 20.6 per cent, followed by the UK with 13.7 per cent.

Total European sales are expected to reach $9bn (£5bn), against $8.1bn in 1988.

The figures underline the growing importance of Japanese and other Far Eastern semiconductor makers in the European market. In 1988, Japanese producers will account for about 14 per cent of European sales against 10.2 per cent four years ago, while other Asian-Pacific manufacturers, mainly the South Koreans, will have captured a little more than 1 per cent of sales against virtually nothing in 1984.

Indigenous European producers maintained their market share last year, with 41 per cent of total sales, while American-owned producers lost almost 3 points to register 44 per cent of sales.

A significant proportion of the Japanese increase, however, was attributable to the steep rise in the price of memory chips. With these prices likely to moderate later this year, the market share of the Far Eastern producers may come under pressure.

Mr Jan Calen, Motorola's European marketing director, said the high rate of growth in UK consumption of semiconductors was heavily influenced by the presence of several big multinational chip users in Britain.

Britain had particularly benefited from the high level of activity among computer makers, in which a number of US-owned companies were active, he said. In addition, UK demand had been stimulated by the growth of consumer electronics production, where output in Britain was now dominated by the Japanese.

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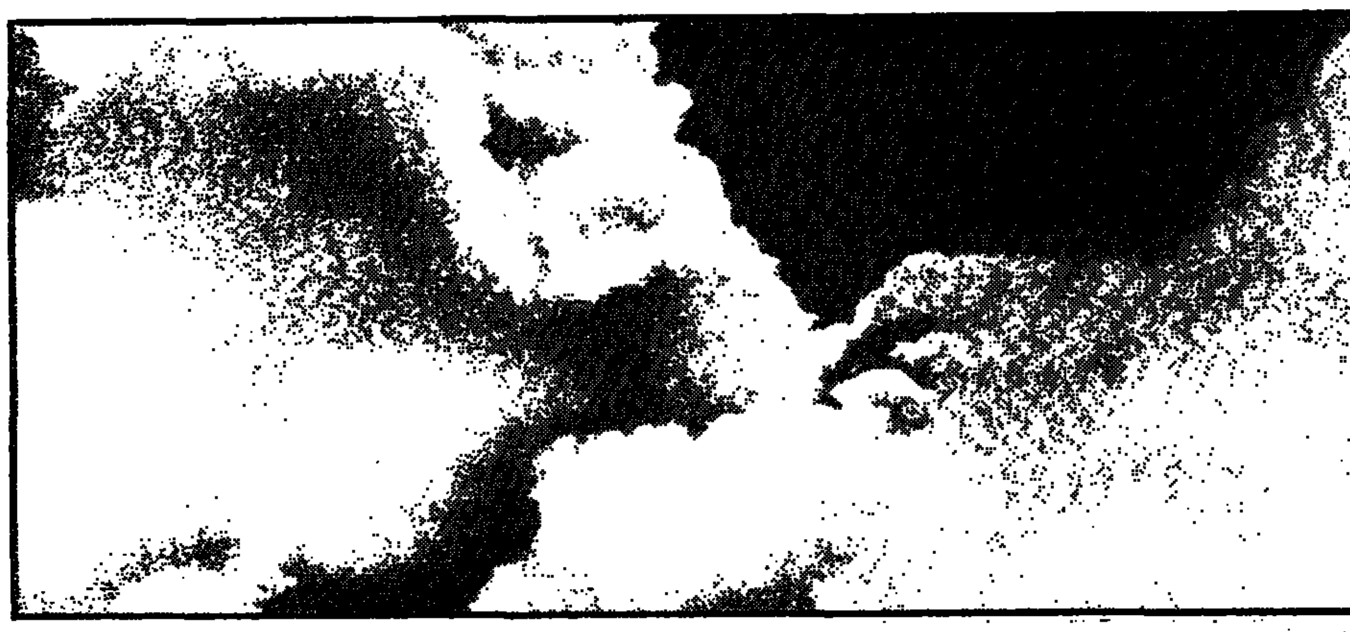

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WIMPEY
Breaking new ground.

Italy, Belgium move to cut back Gulf presence

By Robert Allen in Dubai

ITALY and Belgium have become the latest countries to reduce their presence in the Gulf in the aftermath of the Iran-Iraq war. This leaves just 50 Western ships to patrol the region, down from 70 at the height of hostilities.

The last Belgian minesweeper left the Persian Gulf yesterday, ending a one-year mission which involved three ships and 275 men, the Ministry of Defence announced.

The Crocus and its 50-man crew left Muscat, Oman, to reach Belgium on December 23.

Italy will withdraw all of its Gulf fleet – two frigates, two minesweepers and a supply ship – by the end of this month, a senior Italian naval officer said in Abu Dhabi last week. Eastern and Western fleets will still maintain a presence, however, as doubts persist on the durability of the ceasefire. Mr Hashemi Rafsanjani, Iran's Parliamentary Speaker and acting commander-in-chief, said in Tehran on Friday that the "no war, no peace" situation was unacceptable, and that without peace the fighting would resume.

In view of these doubts, Britain's presence has remained the same. Commander Neil Law, chief staff officer of Britain's Armilla Patrol said in Dubai last week that there had been "no change in force levels," of the British naval presence.

The three British warships which make up the patrol will be replaced when they complete their tour of duty shortly.

The US has started to dismantle one of two artificial offshore landing and supply platforms in the northern Gulf, but still maintains 26 ships in the area, according to General George Crist, commander of the US Central Command.

France plans no cuts in its fleet of 13 ships, Mr Jean-Pierre Chevenement, French Defence Minister, said in Riyadh earlier this month. It did withdraw the aircraft carrier, Clemenceau, in September, however – a month after the ceasefire.

The Soviet Union maintains five ships in the region.

The Western ships which remain will concentrate on mine-clearing operations, which have taken on a new urgency. US officials estimate there are between 150 and 200 mines floating in the northern Gulf.

The Joint Mine Counter-Measures Operations, operated by the UK, Belgium and the Netherlands, is clearing mines further south, in areas where the Armilla Patrol "accompanied" British flag carriers until the ceasefire.

Eight Gulf states, including Iran and Iraq, which comprise the Regional Organisation for the Protection of the Marine Environment (Ropme), held an emergency session in Kuwait earlier this month to discuss ways to clear the Gulf of mines, shipwrecks, unexploded bombs and chemical pollution.

Dr Abdul-Rahman al-Awadi, Ropme's acting executive secretary and Kuwaiti Minister of Planning, said 657 ships and tankers had been "caught in the crossfire" of the war.

He urged the international community to continue its efforts to help clean up the area, at the same time insisting that such an operation was the responsibility of the regional countries.

Riyadh, Peking to open commercial relations

SAUDI Arabia and China are to open commercial offices in each other's capitals following an agreement signed in Washington on Friday by their respective ambassadors to the US, Prince Bandar Bin-Sultan, the son of the Kingdom's defence minister, and Han Xu, writes **Robert Allen from Dubai.**

The offices will be the first permanent representation between the two and a possible prelude to full diplomatic recognition.

Saudi Arabia and Bahrain are the only two members of the six-nation Gulf Co-operation Council – which also includes Kuwait, Oman, Qatar, and the UAE – not to have diplomatic relations with either of the two major communist powers.

A possible sweetener on the part of the Chinese could have been the reported increase in the Chinese quota – from 3,000 to 4,000 – of Chinese Moslems permitted to make the pilgrimage to Mecca.

The upgrading of relations comes at a time when Saudi Arabia is broadening its relations with a number of foreign countries, including the Soviet Union.

The establishment of official commercial ties with China also reflects the increased warmth between the two countries since the start of general trade talks at the end of last year culminated in the Saudis' purchase last April of Chinese intermediate-range missiles.

It is understood in Riyadh that these discussions, initiated by the Chinese through Han Xu and the Saudi embassy, were followed up in Peking between Prince Bandar and other Saudi emissaries.

Saudi Arabia's acquisition of the missiles drew an indignant response from the US, particularly from Congress, though the deal was seen in Riyadh to be an extension of Saudi Arabia's general broadening of foreign and defence links.

Britain and Argentina to hold talks at UN

BRITAIN and Argentina will hold talks shortly at the United Nations for the first time since the 1982 Falklands War but the agenda will be UN matters rather than a restoration of relations, the Foreign Office said yesterday, AP-DJ reports.

Mr Dante Caputo, Argentina's Foreign Minister, who is currently president of the UN General Assembly, requested the meeting with Sir Crispin Tickell, Britain's ambassador to the United Nations, the British Foreign office said.

"No date has been agreed for this meeting," a Foreign Office spokesman said.

Mr Caputo's request was made in his capacity as president of the General Assembly.

It was "completely unremarkable" because in that post he would be expected to hold talks with Britain and all other members of the United Nations' Security Council.

"It is inconceivable for our ambassador not to have meetings with the president of the General Assembly, who just happens to be the foreign minister of Argentina," the spokesman said.

The Foreign Office dismissed a report in The Sunday Times weekly newspaper which said that "each side will use the opportunity to sound out the other on ways of advancing towards a restoration of diplomatic and commercial relations."

Britain severed diplomatic relations with Argentina after the South American country invaded the British-ruled Falkland Islands in 1982.

Argentina claims the islands as part of its territory.

A British expeditionary force recaptured the south Atlantic islands after a 74-day war.

Mrs Margaret Thatcher's Conservative government has refused to discuss Argentina's demand for sovereignty over the Falklands.

Pakistan's politicians hedge their bets

MY MOTHER told me never to trust a politician. Mothers are not stupid; neither are the people of Pakistan. In a recent survey, almost half those asked said the nation's political leaders were not dependable.

This reaction is hardly surprising. *Almost a third of the* candidates of the main opposition party (PDP) joined it in the past three months. Many signed up on the last day that tickets were issued.

One man attracting big crowds these days is Mr Rana Naeem, Defence Minister in the last Cabinet. They are curious to hear him attack his former Cabinet colleagues and shout slogans praising Bhutto – the man for whom he never had a good word. If Naeem loses in next Wednesday's election, his seat will still be in the family because his main opponent from the Moslem League is his cousin.

Voters remain sceptical, Christina Lamb writes

All over Pakistan, brothers and cousins are standing against each other. To retain the local influence necessary for the survival of feudal families, it is crucial for them to have someone in politics. Shahzada Sultan-i-Rum, brother of the last Wali of Swat, explained: "Our family is fielding several opposing candidates for each of the four seats in Swat. That way we make sure we win. It's just like backing all the horses in a race".

Only those concerned with labels care which party wins Pakistan's first free (and, hopefully, fair) election in 18 years. The same faces and families will be prominent. Even the country's leading politicians hedge their bets by contesting large numbers of seats.

Ms Benazir Bhutto, the PPP leader, and her mother, Nusrat, are fighting five national seats between them. The Moslem League has Nawaz Sharif contesting four national and *five provincial seats, while* General Fazle Haq is a candidate for two national and three provincial seats.

After initial doubts, the people of Pakistan are enjoying the election. Politicians get no radio or television access. This means their message has to be carried on whistle-stop, flesh-pressing tours where people, long frustrated by Pakistan's total lack of entertainment, get a chance to dance, sing, release balloons and let their hair down in a way that normally would end in arrest.

To contest the election you must be rich, and many workers see the campaign as their chance to effect a redistribution of wealth. While the official limit on spending is Rupees 500,000, most candidates estimate that they spend more than that each day – much slipping into the pockets of everyone from the man printing the posters to the rickshaw driver paid to display them.

In the tribal areas, the process is much more blatant. Only tribal chieftains, Maliks and agency councillors have the right to vote. They number between 900 and 8,500 in the eight constituencies. Pathans will sell anything – including their children, for the right price – and those privileged with a vote expect a hefty sum for their support, at least Rupees 10,000. Sailad Mahsud, a journalist, explained: "Tribals don't consider it immoral to accept money for their votes as this is a once-in-a-decade chance to cash in"

Addressing a rally in a village in Punjab, Nawaz Sharif, Chief Minister of Punjab and aspiring prime minister, raised loud cheers by announcing plans to build a school and a road, plus a large contribution to the town funds.

One old man leapt up and asked for his village school to be upgraded. Beaming, Nawaz Sharif agreed. Immediately the crowd was in uproar, all yelling their demands, while the red-faced Chief Minister had to be smuggled from the stage.

Bofors row haunts Gandhi

A major clash is likely today, writes **K.K. Sharma**

THE $1.4bn deal between Bofors of Sweden and the Indian Government in 1986 for the sale of howitzers for the Indian Army continues to haunt Mr Rajiv Gandhi, India's Prime Minister.

Mr V.P. Singh, the opposition leader, resurrected the subject last week and it is unlikely to die before the next general elections.

What Mr Gandhi must have hoped had been buried last April with the completion of an inquiry by a parliamentary committee into charges of pay-offs, has now been given fresh life by Mr Singh's claims that the prime minister was the recipient of at least some of the commissions said to have been paid by Bofors, and that he allegedly stashed these away in a numbered Swiss bank account.

Congress-I leaders and senior Indian ministers have claimed that Mr Singh's "disclosures" were politically motivated. Mr Singh has admitted that the documents he released last week were, in fact, first published by a Madras newspaper in June.

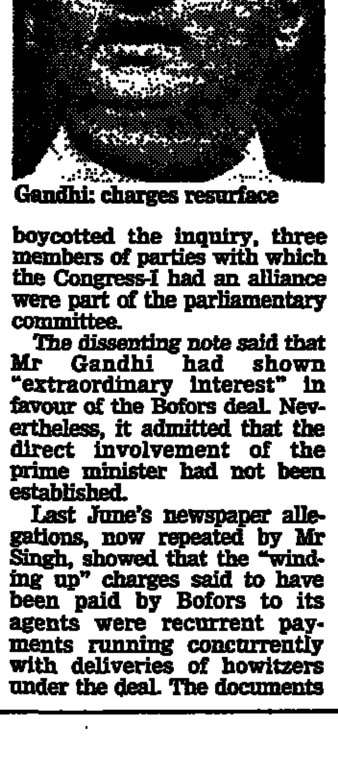
A major row in Parliament is certain today, when the two houses meet again after a week's recess. Congress-I members are preparing to challenge Mr Singh to repeat his charges before parliament so that they can seek to censure him.

The opposition will undoubtedly retaliate by repeating the charge that Mr Gandhi is the recipient of the pay-offs. The battle for the next general election has been joined and allegations of corruption will clearly be a central issue.

The Bofors deal was never really closed by the parliamentary committee's report, since it confessed its helplessness "to reach any conclusion in regard to the identity of recipients" of what Bofors called "winding-up costs" to its agents and what others allege were huge kickbacks.

The report said Bofors had expressed its "inability to furnish copies of initial as well as termination agreements with the three companies to whom winding-up costs were paid". This was hardly conclusive and suspicions have remained.

These were increased by a dissenting note appended to the report by an opposition member whose political loyalties changed while the committee was in session. Although the major opposition parties



Gandhi: charges resurface

boycotted the inquiry, three members of parties with which the Congress-I had an alliance were part of the parliamentary committee.

The dissenting note said that Mr Gandhi had shown "extraordinary interest" in favour of the Bofors deal. Nevertheless, it admitted that the direct involvement of the prime minister had not been established.

Last June's newspaper allegations, now repeated by Mr Singh, showed that the "winding up" charges said to have been paid by Bofors to its agents were recurrent payments running concurrently with deliveries of howitzers under the deal. The documents published by the newspaper also showed that the amounts involved were substantial - Rs1.6bn rather than the Rs640m determined by the parliamentary committee.

The payments were said to have been made to three companies which Mr Singh has alleged are fictitious and that at least one of them - Svenska of Panama - was a front for Mr Gandhi. The two others are said to be A. E. Services of Britain and the anonymous PITCO, and payments alleged to have been made into Swiss accounts, to have borne such code names as "lotus", "tulip" and "Mont Blanc". The rest is conjecture.

Although the Bofors case will remain in the news in the run-up to the elections, the full truth may never become known.

The only other source would be the Swiss banks, and their secrecy is legendary. Finance ministry officials say that efforts are being made to enter into an agreement with Swiss authorities for mutual assistance, but progress is slow.

Until a treaty is signed, the Indian Government plans to enter into a memorandum of understanding with Switzerland for assistance in specific cases of Indians having accounts in Swiss banks. This is the result of a mission sent to Switzerland which found that although the Swiss authorities do not permit generalised inquiries about customers' accounts, they would, under certain conditions, entertain requests for assistance.

Cynics say these requests will probably never be made, since people in authority are believed to have been involved in innumerable cases of corruption. More allegations of pay-offs have surfaced in the past few years, but the feeling is widespread that these are the tip of the iceberg.

OVERSEAS NEWS

Dutch merger defences may be self-defeating

Managers must listen when confronted by suitors, writes Laura Raun in Amsterdam

AS CORPORATE mergers and acquisitions gather pace in Europe, Dutch companies risk isolating themselves behind notoriously protective anti-takeover defences.

These ramparts are designed to fend off hostile takeovers and protect management so the company's "identity and continuity" can be preserved. Dutch managers oppose unfriendly acquisitions because of the perceived threat to long-term thinking, and focus on short-term considerations.

But Dutch captains of industry do not hesitate to declare war on companies abroad. In 1984 they took over 35 per cent more companies abroad than foreigners did in the Netherlands. Last year they purchased four times as many. In overall foreign investment the Dutch rank among first in the world. The Netherlands invested $47bn in the US alone in 1987, second only to Britain. This lack of reciprocity is provoking charges of protectionism and threatening to staunch capital flows into the Netherlands.

It raises questions about Amsterdam's ambitions to join the big league of international financial centres. The virtual absence of risk from contested takeovers is blamed in part for Amsterdam's historically low share prices when compared to international standards. The Amsterdam stock exchange has been eclipsed by Milan and Madrid.

"I'm particularly concerned that if the Netherlands and other countries on the Continent don't make it easier to invest in them, the capital will simply go elsewhere," warns Mr John Cutts, who recently joined Samuel Montagu in London and has worked in Amsterdam. "If the Dutch won't listen to reasoned argument, there will be trouble."

The Amsterdam bourse has begun to try to curb excessively protective devices. But listed companies rose up against such efforts and no limits have yet been imposed. Baron Boudewijn van Ittersum, Bourse chairman, still believes the Netherlands must get in step with the rest of Europe, to compete in increasingly global markets.

Foreign investors account for 50-55 per cent of turnover in Amsterdam against 31 per cent in London, but reform is increasingly deemed desirable. Dutch corporate defences are perhaps the most protective in the EC. No corporate raider has succeeded in a hostile acquisition in modern history. In contrast, Dutch companies such as Wereldhave – the property group – have captured victims by using the merger code in London.

Firm playing rules are lacking in Amsterdam, although there is a voluntary merger code. Differences in corporate culture separate the Netherlands and the Anglo-Saxon world. Dutch managers believe in corporate oligarchy – the right to run a company without interference or threat of expulsion. Shareholders' rights are limited and stock certificates anonymous, not registered.

Share ownership is less common than in the UK or US and the centre-right government has done little to widen it. Only 10 per cent of families own stock against more than twice that in Britain and the US. Dutch managers argue that their companies are relatively small and thus must be legally protected from attack or else face capture by foreigners.

In the Anglo-Saxon world, managers must prove themselves capable of running an enterprise or else face expulsion. Anti-takeover defences in the Netherlands go back to a time when shareholders first put up risk capital but managers retained power by issuing themselves "priority shares." Amid the merger mania of the 1960s, anti-takeover defences proliferated.

Dutch devices are permanent corporate structures, unlike temporary ones often used in the US. Today, the most popular devices include priority shares, which give holders veto rights over decisions such as capital increases and statute changes.

Priority shareholders are usually "foundations" whose directors are company managers. Preferred shares also confer latitudinal powers and are tucked into management-friendly foundations. Non-voting certificates are issued to common shareholders while their voting rights are exercised by "administration offices" which rarely vote against management.

Other kinds of shares limit voting rights to a certain number regardless of size of the holding. Finally, companies can incorporate in a legal structure that gives management sweeping powers, including appointing their own successors and approving annual accounts. Most companies pile up layers of these defences, so that only a few brazen raiders attempt an attack. In the early 1980s Wereldhave itself was the target of an unfriendly bid and last year the big Dutch publisher, Elsevier, tried to buy a smaller rival, Kluwer, against its will.

The Kluwer battle focused attention on the need for reform. Baron van Ittersum argued that multiple locks on the doors can deprive shareholders of rights, impede efficient capital formation, coddle management and depress equity prices. The leading employers' association retorted that Dutch corporate defences were no stronger than in other countries, including the UK, where nationalism plays a larger role. Besides, such protections give management time to consider hostile bids and thus foster efficient capital formation, it asserted.

But the bourse went ahead and announced plans to curtail corporate defences. For companies seeking an initial listing, the curbs would have taken effect quickly, and for the rest on January 1 1991. Protective measures would have been limited to two at a time and preferred shares limited to a maximum of half the outstanding share capital without shareholder approval.

"Administration offices" would have been required to act in shareholders' interests and investors would have been forced to announce when a threshold percentage of shares had been acquired. No such reporting requirement exists now. But listed companies revolted, and the plans were postponed indefinitely.

Baron van Ittersum hopes to send revised proposals to the finance minister for approval soon, but they are widely expected to be watered down. Meanwhile, captains of industry have banded together to lobby against disarmament.

Four of the Netherlands' most powerful financial institutions have formed a "white knights" fund to rescue companies under assault by a hostile bid that is deemed too low. Called "Winter Palace", it will buy a targeted company's shares, but only at its request, then resell them at a profit. The venture comprises Amsterdam-Rotterdam bank, the second largest bank in the country, Nationale-Nederlanden and Aegon, the top two insurers, and Philips' pension fund.

Since "Winter Palace" will act only at victims' behest, it differs from a conventional arbitrageurs' fund and raises several questions of practicality. It is unclear how the *ad hoc* group can rally quickly enough during volatile bid battles since it may invite different partners for each manoeuvre and must jointly decide whether a bid is too low. It is equally unclear how "Winter Palace" can operate commercially when it must top a competing offer, then hold the acquired shares longer than the hostile bidder.

Share prices often fall after a bid battle. Some bankers contend fair battles can only be waged if shares are registered. Mr Win Bischoff, chairman of J. Henry Schroder Wagg, the London merchant bank, said recently in Amsterdam: "Bid battles can only come into play when there is access to shareholders and they can respond. It is important not only to know who they are but who advises them."

As European integration prompts more corporate consolidation, Mr Cutts hopes Dutch managers will listen to clearly defined strategies and reasoned arguments when confronted with suitors. "The best way to change is to be approached by a high-quality buyer with proper financing and well-considered plans," he says. The EC merger code now under discussion in Brussels sidesteps the question of anti-takeover defences but more uniform rules seem inevitable if a level playing field is to be achieved.

SHIPPING REPORT

Tanker trends strong

By Kevin Brown, Transport Correspondent

BROKERS said the tanker market was quiet last week, but the underlying trend remained strong with rates rising in most sectors.

E.A. Gibson, the London brokers, said rates should remain in owners' favour for the rest of the year while buyers continue to obtain large quantities of crude oil at discounted prices.

Rates for VLCCs in the Middle East Gulf were said to have shown a slight improvement, with vessels of around 250,000 tons deadweight being fixed at around Worldscale 60 for the Red Sea and Eastern destinations, and around Worldscale 49.5 for the West.

Inquiries for ships of up to 135,000 tons were said to have picked up and several fixtures were concluded.

Ships of around 130,000 tons were being fixed at around Worldscale 70 for UK/Continent discharge, Worldscale 72½ for the US, and Worldscale 90 for the East.

Elsewhere, ships of around 120,000 tons from West Africa were being fixed at around Worldscale 65 to the West.

Philippines rebel army chief walks out of jail

By Richard Gourlay in Manila

THE HEAD of the communist rebel army in the Philippines walked away from a maximum security prison at the weekend, after being allowed to attend the birthday party of his former warden. It is the third embarrassing escape of a high-ranking opponent of the Philippine government this year.

An angry President Corazon Aquino immediately berated Major Gen Ramon Montano, the police chief in charge of the Constabulary headquarters where Mr Romulo Kintanar was being held in a high security stockade on charges of rebellion.

Three officers have been relieved of their duties and three guards arrested but it was too late to prevent another damaging blow not just to the government's credibility but also to army efforts to undermine the communist movement's political leadership.

The dismay over the failure of the security measures was heightened by knowledge that Mr Kintanar, a hard-liner who advocates increased military activity, set up the urban guerrilla hit squads that the army says have killed more than 100 police and soldiers over the past two years.

Mr Kintanar and his wife, who also escaped, were captured in March with seven communist leaders in raids that showed considerable infiltration of the party's top ranks. Mrs Aquino has recently used these captures as proof that the Philippine army is winning the 20-year struggle against the 25,000-strong New People's Army.

The escape had another bizarre twist. The couple were attending the birthday party of Col Robelito Comilang, the camp warden who last month was relieved of his duties after a leader of a failed coup in August last year was shot dead while trying to escape.

The leader of that coup, Col Gregorio Honasan, who retains a degree of support within the 165,000-strong military, successfully escaped from a prison ship in April by sailing ashore.

Days later, another coup leader, Col Eduardo Matillano, was allowed to leave his prison cell to visit a dentist and escaped. The latest embarrassment for the Manila government coincides with a visit by Senator Robert Dole of the US, who is talking to Philippine leaders about the future of American military bases after 1991, and familiarising himself with the problems facing the Philippines.

Ireland's chat show hit by Poppy Day rumpus

By Kieran Cooke in Dublin

MR GAY Byrne is Ireland's leading media star. He is often referred to as the Irish Republic's unofficial Prime Minister.

His Friday night TV programme, The Late Late Show, is the world's longest running TV chat show. Last Friday, Mr Byrne announced he would wear a poppy on TV that night. Two of Mr Byrne's uncles were among the 50,000 Irishmen killed in World War I.

Mr Byrne was immediately accused of being pro-British and anti-Irish. TV watchers said they would not pay their licence fees if he appeared wearing a poppy. Mr Byrne was accused of denigrating the Irish state. He appeared minus his poppy.

"There's enough dissension in this country without causing more," Mr Byrne said. His guest, Mr Jack Campbell, believed to be Ireland's only survivor from World War I, agreed.

The poppy has become particularly emotive since last year's IRA bombing in the town of Enniskillen, in which 11 people died attending a Remembrance Day Service.

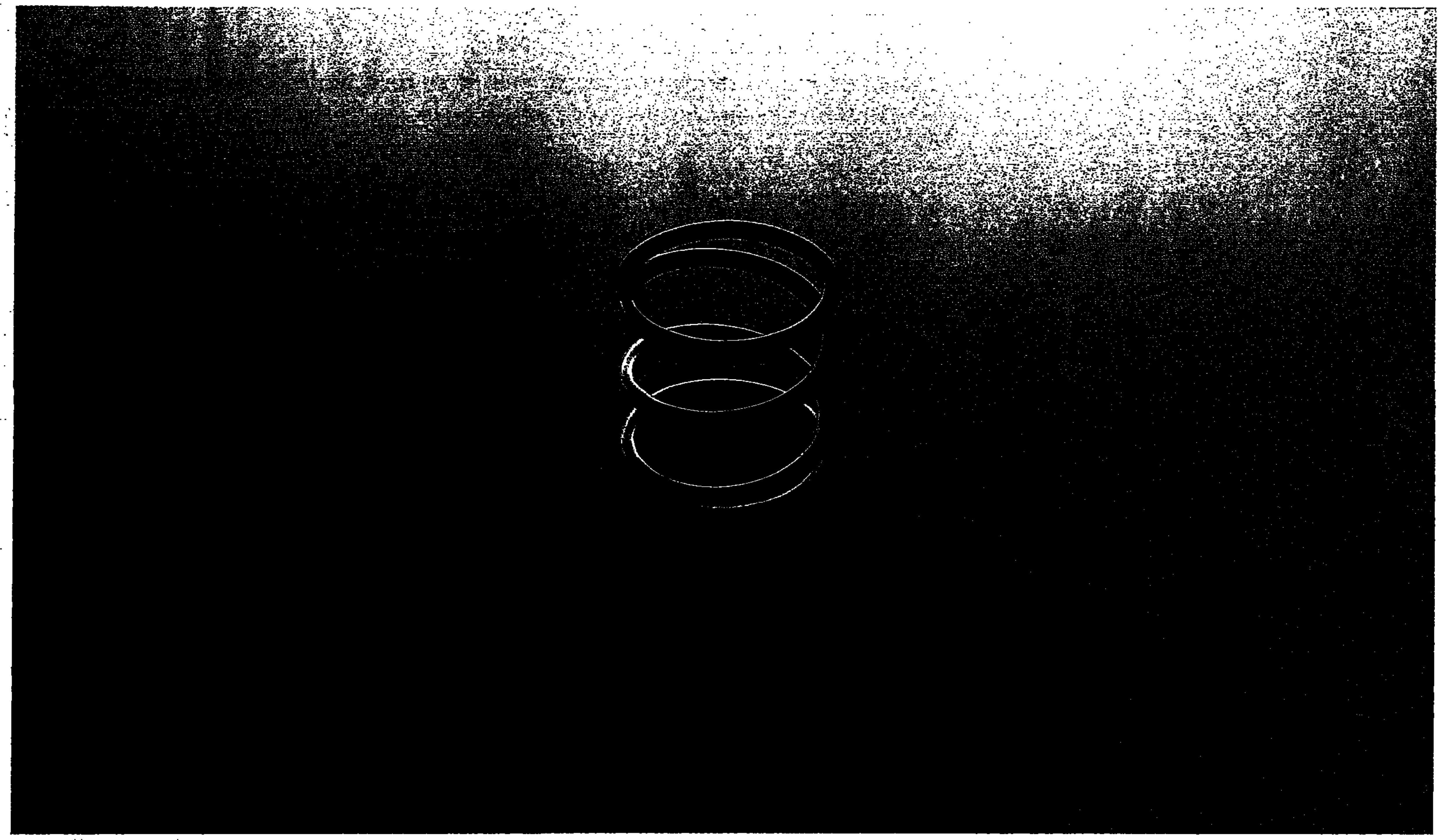
"The poppy has been hijacked as yet another symbol, not of peace but of confrontation," said one Irishman who served with the British army in World War II. "Isn't it a commentary on the daft little country we live in that such a fuss can be caused by such a little thing?" Mr Byrne commented.

WORLD ECONOMIC INDICATORS

FOREIGN EXCHANGE RESERVES (US$m)

	Sept.'88	Aug.'88	July '88	Sept '87
US	18,015	18,017	14,056	13,999
UK	38,698	38,812	38,222	25,850
W. Germany	52,685	53,762	56,060	57,862
Japan	84,446	83,606	82,467	68,768
Belgium	7,564	7,542	7,552	7,790
Netherlands	13,126	12,982	13,242	12,507
Italy	26,893	28,307	27,236	19,262
	Aug.'88	July '88	June '88	Aug. '87
France	26,320	27,044	26,736	28,615

Source: IMF



BEDSPRING OR EGGCUP?

One in a million sees it as an eggcup. His name is Nick Munro.

He first encountered said bedspring while rummaging in the attic of his Chester home. Eureka!

Suddenly, in Nick's mind's eye, the rust encasing the bedspring seemed to peel away. He peered at the erstwhile humble object and saw it in a new light.

Burnished and silvery it was, adorning a tasteful breakfast table with a delicious, fresh boiled egg nesting neatly on top.

As alternative uses for other humble objects began to crowd his mind, so did the thought that people might actually buy them.

Nick wrote to Livewire, a scheme set up by Shell in 1982. Its aim is to help young people get their new business ideas off the ground.

At Livewire, Nick found practical advice on the nitty-gritty of premises, production, finance and marketing, the perfect counterweight to his flight of imagination.

Now Nick is in business as Munro & Co. Designer Tableware, numbering Harrods and The Design Centre among his outlets.

He's also this year's winner of the Livewire award as creator of the most enterprising new business idea we've encountered.

The Livewire scheme is open to people aged 16 to 25.

So, if you're another Nick Munro (or you know someone like him) write to Livewire, Freepost, Newcastle-upon-Tyne NE1 1BR.

If the idea is everything you think it is, you can be sure we'll provide a springboard.

YOU CAN BE SURE OF SHELL

If your five-year-old son were asked to draw a picture of his family, would you be in it?

'I WAS really choked. He gave it to me at breakfast one Saturday. Really proud of it, he was. There was his mother, his big sister and him. I just wasn't in the picture.'

Most people would agree that time is the one thing we could all do with more of.

What most people don't realise is that the right communications package is one of the shorter routes to saving time at work.

Unfortunately, given the complexity of business communications today, getting one's hands on the right package isn't exactly easy, is it?

To help you identify the most time-saving technology for your particular business, British Telecom has compiled a comprehensive guide to the latest in telecommunications.

It's called Workplan and it's available free to anyone in business.

Workplan will help you evaluate your requirements and explain the communications options that we believe would be most likely to save you time.

(At British Telecom, we can offer everything from simple radio pagers to third-generation fax machines to digital data systems.)

To receive your copy of Workplan, call us free on 0800 800 840, 24 hours a day, seven days a week. Don't let the pressure of work put you off, will you? In business, time is money. In your personal life, it can be priceless.

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It's you we answer to

UK NEWS

CBI/FT survey says mortgage rates may be depressing sales

Consumer spending slows down

By Ralph Atkins, Economics Staff

SIGNS OF a marked moderation last month in British retail sales growth and consumer spending come in a survey released today – the first of a series of figures this week on the UK economy.

The Confederation of British Industry/Financial Times distributive trades survey shows retailers reported sales volumes increased at a much slower pace in October than in the previous month. Sales were also below retailers expectations.

The results suggest that the steep rise in mortgage rates since the summer may be beginning to have an impact on consumer spending.

However, the slowdown is from exceptionally high levels during the summer and the survey shows that retailers remain fairly optimistic about sales this month.

The survey also shows a big slowdown in the rate of growth of sales by motor traders after exceptionally strong growth during the summer.

It is likely to prove of some comfort to financial markets which have been looking for signs of a slowdown in economic growth.

Lower retail sales growth in coming months may help reduce imports, easing the UK's big current account deficit.

Later today the Department of Trade and Industry will release its figures for retail sales in October. Figures for September showed a fall compared with the previous month although the year on year rate remained high.

Other figures this week include the retail price index on Friday which is expected by analysts to show Britain's inflation rate rising above 6 per cent.

Figures for average earnings, which have also been rising strongly recently, are released on Thursday.

Mr Nigel Whittaker, CBI/FT survey chairman, said this was the second month in succession that the survey had indicated slower growth in retail sales.

He said: "Consumer confidence seems to have been further hit by October's mortgage rate increase, coming on top of earlier interest rate rises. Although retailers are still optimistic, the reality is that we may now be in for a period of significantly slower growth in the retail sector."

The survey shows that in October, 54 per cent of retailers reported sales volumes were higher than the same month a year before and 22 per cent said they were lower. The difference between those reporting increases minus those noting falls was the lowest for any month since April.

For November, 59 per cent of retailers expected sales to be higher than the corresponding month a year before while 8 per cent forecast a fall. This was the least optimistic prediction since retailers were questioned on expectations for April.

Survey details: Page 11

£400m pollution contract first stage in power stations' refit

By Andrew Taylor, Construction Correspondent

THE UK Central Electricity Generating Board will decide shortly whether John Brown or FKI Babcock will win a £400m contract to combat air pollution at Drax power station in North Yorkshire.

It is expected to be followed by further orders worth up to £1bn from other British power stations.

Drax is western Europe's biggest coal-fired power station. At least three other groups of British, American and West German companies were bidding for the £400m contract to reduce its sulphur dioxide pollution.

Other companies invited by the CEGB to bid for the work included a consortium involving Costain Engineering of the UK and Deutsche Babcock of West Germany. A second group included Balfour Beatty of the UK, and Lodge Cottrell of the US, under licence from Saarberg-Hoelter of West Germany.

The winner of the Drax contract is expected to be in a strong position to bid for a further £800m to £1bn of orders from British power stations. These are expected to emerge as a result of a European Community decision in June to reduce sulphur dioxide emissions from power stations by 60 per cent by 2003.

John Brown the power engineering subsidiary of Trafalgar House and FKI Babcock the electrical and engineering group have been asked separately by the CEGB if they would be prepared to provide the technology and act as managing contractors for the entire programme.

The board has estimated that a further 6,000 MW of existing coal fired capacity will need to be treated to meet the new European Community requirements.

This would be in addition to the 4,000 MWat Drax and a further 3,000 MW for which the board has already committed itself to treating. It will also fit sulphur removal plant to all new coal fired power stations.

The orders will need to go ahead irrespective of the privatisation of the electricity industry.

Just to meet the minimum requirement laid down by the EC will be very costly. Around 35,000 tonnes of steel, for instance, is likely to be required at Drax, about a third of the steel used to build the power station.

Babcock International, which was acquired last year for £416m by FKI Electricals, supplied the boilers for Drax and also built part of the power station. It has already claimed success for an experimental pilot model gas treatment plant at Drax.

FKI Babcock, however, has been seeking a purchaser for its energy interests. Talks have taken place with GEC of Britain and with Westinghouse of the US but have failed to produce a deal.

The company's sulphur dioxide removal process uses Japanese technology under licence from Babcock-Hitachi, a Japanese company which shares the same Babcock name but has no equity connection.

John Brown uses an American system under licence from General Electric which it says has been very successful in treating gases from very large US power stations, similar in size to Drax.

Both processes involve limestone which is turned into a slurry and sprayed over exhaust gases as they pass through a large tower. The residue is processed to create gypsum which the CEGB proposes should be sold to building material companies to make plaster board.

BA offers bonus to stem brain drain

By Philip Bassett, Labour Editor

BRITISH AIRWAYS is offering to pay scarce computer programmers a bonus of a year's pay if they agree to remain with the company for a three-year period.

The bonus is a direct attempt by BA to prevent poaching of its headquarters staff skilled in transaction processing facility (TPF), a particular form of computer programming.

Other European and American airlines have been offering BA's TPF staff pay increases of £5,000-£8,000, and in some cases a straight doubling of salary, to leave.

BA has about 200 TPF staff working on the Galileo project, a large-scale computer reservations system currently being developed by the Galileo consortium of European airlines.

BA is asking its TPF staff to agree to work with the company for a two or three-year period. Those signing for three years will receive 10 per cent of a year's pay every six months, with the balance of 40 per cent of a year's pay due at the completion of their contract.

Lawson statement sought on pensioners' benefits

By Charles Hodgson

THE LABOUR Party yesterday demanded a further statement from Mr Nigel Lawson, the Chancellor, in the Commons today in the continuing political row over his disputed remarks on state benefits to pensioners.

Mr Gordon Brown, Labour's Treasury spokesman, wrote to Mrs Margaret Thatcher, the Prime Minister, urging her to reconsider the Cabinet decision that no new statement from Mr Lawson was needed, in the light of "fresh and disturbing accounts" of the Chancellor's briefing to journalists 10 days ago.

Mr Tam Dalyell, Labour MP for Linlithgow, said he would ask the Speaker to allow an emergency debate on the issue.

Last week, Mr Lawson strongly rejected the interpretation put on remarks at the briefing that the Government intended to deny "better off" pensioners certain benefits so that more money could be targeted at the worse off.

However, Mr Brown suggested that the unanimity of accounts by journalists at the briefing in yesterday's newspapers and the "independent corroboration of the Chancellor's means-testing objectives" in an ITN report, required "a full and frank explanation."

Gordon Brown: "Fresh and disturbing accounts"

Mr Brown said further justification for Labour's demand lay in reports that a new scheme to assist pensioners who were worse off had previously been temporarily shelved by social security ministers.

That was because the reports said the scheme had been revived to "provide some relief for the difficulties the Chancellor had created for himself," he explained.

But officials at 10 Downing Street and the Treasury insisted last night that no new information had emerged to require a statement from Mr Lawson.

"The Chancellor made the position as regards pensions perfectly plain . . . We have nothing to add," a senior Treasury spokesman said.

Labour intends to maintain pressure on the Government over its plans for the welfare state and the state of the economy. The pensions row is seen as making Mr Lawson vulnerable on both counts.

The newly shuffled Shadow Cabinet is to meet in Rottingdean, East Sussex, later this week to work out its strategy for the new parliamentary session.

It will focus on exposing what it regards as the twin threats of present government policies to Britain's standard of living and to the quality of life.

Labour feels it can build on growing public concern about the state of the economy as increased mortgage repayments, coupled with higher inflation and the continuing high interest rates and trade deficit, begin to bite.

On the quality of life, Labour will broaden the attack on what it sees as declining cohesion in society and deteriorating public services to embrace environmental issues. Those issues are expected to be highlighted in a speech by Mr Neil Kinnock, the party leader, to the Association of County Councils today.

Move expected to close NESL

By Charles Hodgson

THE CLOSURE of North East Shipbuilders (NESL) is expected to be announced by the Government today after four long-standing bids from the private sector for Britain's last state-owned merchant shipyard failed to satisfy Trade and Industry Department conditions.

Mr Tony Newton, Industry Minister, is expected, however, to tell the Commons that a last-ditch private bid, submitted in writing to the DTI late last week, will be considered before the shipyard closes. Those involved in the new bid are reported to have access to half the capital required and to be confident of gaining further support.

Mr Bryan Gould, Labour's trade and industry spokesman, said he expected Mr Newton to announce that none of the four existing bids was acceptable and that, with no action intended to secure orders, the yard would close. He added that Mr Newton was likely to announce measures to revive the local economy.

DTI officials confirmed privately that Mr Newton would make a Commons statement today but would not comment on its likely content. They added that Mr Newton was under considerable pressure to end the uncertainty surrounding the future of NESL, which employs 2,000 people.

Labour MPs were critical of the timing of the announcement because there were signs that agreement was close on financing that might secure a £120m cargo-vessel order from the Cuban state shipping line, Mambisa, after talks in Havana last week.

Mr Bob Clay, Labour MP for Sunderland North, said it was "quite ludicrous" to announce the closure, given the possibility of successful negotiations with Mambisa and the newly-submitted bid.

Mr Gould said the announcement's timing "could hardly be more inappropriate," adding that the closure would leave Britain without significant merchant shipbuilding capacity.

Rally over handling of Belfast yard sale

By Our Belfast Correspondent

THE Government's handling of the proposed sale of Harland and Wolff, the Belfast shipbuilder, is expected to be attacked at a rally of the workforce today.

Hundreds of workers have pledged support for the protest called by shop stewards to highlight what they see as the Northern Ireland Office's mismanagement of the company's affairs.

Morale among employees at the Belfast yard is said to be at an all-time low over what trade union officials have condemned as a government policy of "starving the company to death."

Today's protest comes amid speculation that Sealink, part of Sea Containers Group, has asked Harland and Wolff to compete for contracts worth about £250m to build five ferries as part of its fleet-replacement programme.

Harland and Wolff is reportedly the only UK yard approached. Crucially, however, Sealink's proposal would rely on the Government providing the standard subsidy.

Last week Mr Peter Viggers, Northern Ireland Industry Minister, said that availability of public-intervention funds for orders could not be determined until the company was privatised.

He said it was essential that any new orders complemented a new owner's development plans. That has been interpreted by Harland and Wolff as meaning that the company cannot accept new shipbuilding orders at present.

An £8m dredger order offered to the yard by South Coast Shipping of Southampton seems likely to be lost through lack of public subsidy.

Mr Viggers has made clear that the Government is having detailed talks with several potential buyers for the yard.

Mr John Parker, company chairman, is investigating the feasibility of a management and employee buy-out.

No comment was available last night from Harland and Wolff on whether Sealink had formally approached it.

Bluebird Toys buys 'white elephant' factory in S Wales

By Anthony Moreton, Welsh Correspondent

BLUEBIRD TOYS, one of Britain's leading toy manufacturers, is to to buy a Ranks Hovis McDougall factory in Merthyr Tydfil, South Wales, for just more than £5m.

The deal is expected to create between 500 and 600 jobs on the site during the next three years and is a double success for Merthyr. Not only will it provide work in a high-unemployment area but it also takes off the market the largest single property in Wales — the plant covers 280,000 sq ft.

The Bluebird move is expected to be followed in the next few days by an announcement from a leading high street bank that it is to move one of its back-up operations from London into a prominent South Wales site, creating several hundred jobs.

It follows the recent decisions of National Provident Institution, the TSB bank, Rothschild and others to establish a presence in eastern South Wales.

The plant Bluebird will acquire this morning originally amounted to about 750,000 sq ft and was built 10 years ago by the Welsh Development Agency for Hoover to lease. However, demand for washing machines declined and the factory was never occupied by the company. The plant has been on the market ever since and has become known as the biggest white elephant in Wales.

Two years ago the WDA sold part of the site to Avana Bakeries, which intended to employ 800 people producing confectionery, much of it for Marks and Spencer. However, the plan was dropped before that could start when Avana was taken over by RHM.

RHM subsequently sold part of the site to Hoover, which moved its European headquarters to Merthyr from Perivale, west London, and Bluebird has bought the remainder.

Bluebird was formed by Mr Torquil Norman, the chairman, in 1981 with its main production base in Swindon, Wiltshire. It has outgrown that site and, with the help of government regional aid, chosen Merthyr for expansion.

Last year the company had a record £20.4m turnover, making a profit of £2.5m. In the first half of this year turnover reached £7.4m, almost double the previous year's £3.9m and pre-tax profits rose to £151,000 against £134,000.

The rise was in part due to two acquisitions. In the middle of 1987 it took over Peter Pan Playthings, of Peterborough. In April it bought Merit Toys.

National Savings sluggish

By Our Financial Staff

THE COMPETITIVENESS of existing National Savings products is being seriously eroded while its capital bond is being prepared for launch in January. The total net contribution to government funding was only £22.1m last month, showing no more than a slight rise against the exceptionally poor September figure.

National Savings says the result shows little evidence that investments not made during the September postal dispute came through in the subsequent month.

Money is pouring out of the fixed-interest National Savings Certificates, which showed a deficit of £165.5m on the month. However, income bonds pulled in a net £73.8m, recovering from £35.3m in September.

The recent revival of interest in index-linked savings certificates continued, with a net contribution of £51.4m. The prospect of a rise in inflation to 7 per cent during the next few months has stimulated buying of such "granny bonds."

The National Savings Bank Investment Account brought in £28.8m, premium bonds contributed £18.6m, and deposit bonds, which are to be replaced by capital bonds, added £18.1m.

Total investment of £37bn in National Savings has barely risen in the past few months. It has been instructed to restrain its marketing effort.

Apricot reaps fruit of new labours

Alan Cane on a computer company's successful change of direction

APRICOT Computers today expects to reinforce its position as the UK's leading manufacturer of high-performance workstations with the launch of a machine that provides the power of the fastest workstations at the price of a personal computer.

The secret is a microprocessor chip made by Intel of the US which has most of the advantages of Intel's top-of-the-line 80/386 chip but is simpler, and thus cheaper to manufacture.

In developing a workstation based on this 386SX microprocessor, Apricot follows the example set by Compaq Computer of the US, the undisputed leader in the high-performance personal computer market, which launched its own 386SX-based machine earlier this year.

There the resemblance ends. There is a significant difference in size. Compaq is likely to turn over $2bn (£1.1bn) this year while Apricot, based in Edgbaston, Birmingham, will be pushed to reach £100m.

However, while Compaq is set on remaining a personal computer maker – "the building brick manufacturer of the information technology industry" as one rival put it – Apricot is steadily making a reputation as a systems integrator, providing the bricks and the electronic mortar that holds them together.

Systems integration is generally reckoned to be the fastest growing area of the computing services business. Analysts see an almost unlimited demand from companies taking their first steps in using technology for competitive advantage.

Apricot, in pushing towards systems integration, is going through its third reincarnation. It started as a computer bureau, a company that sold computer time and software to companies without their own, before becoming a manufacturer of personal computers in the early 1980s.

By 1985, however, it was saddled with products that were incompatible with the industry standard, International Business Machines. It was forced to cut staff and costs and design new machines from scratch, a diversion that forced it $4.6m into the red at the interim stage two years ago.

Its latest half-year figures, published last week, underline its steady return to health with pre-tax profits of £4.15m for the six months ended September 30, compared with £3.03m for the same period last year.

With the move to systems integration and its emphasis on software and service, Apricot is returning to its origins – an advantage, according to Mr Roger Foster, its chief executive, in that the company is expanding from a base it knows well rather than exploring uncharted waters.

The principal areas of Apricot's strength, Mr Foster says, are finance, government and defence.

Mr Foster points to the contribution made by the financial systems division whose Quasar accounting (back office) system and Citydesk dealing workstation are winning orders from brokers anxious to bring their dealing technology up to date in mainland Europe as well as London. The Apricot systems use high-performance (80/386) microprocessors and advanced screen graphics and represent a different generation of equipment from most of the technology installed for the City of London's Big Bang in 1986.

Less glamorous but just as important to the business is the computer services division, now generating about a third of the group's profits. It carries out computer maintenance and instals cabling systems for computer networks.

Mr Foster reckons the lessons of 1985-86 have been well learnt.

The company will never again build computers that are not compatible with those from IBM. That is why Apricot, almost alone in the industry, is marketing computers featuring IBM's controversial new microchannel architecture (MCA) design, which most other personal computer manufacturers have spurned. Sales, he says, are fantastic. "The bigger customers are going for MCA and apart from IBM, we have the market to ourselves."

Inquest opens into IRA men shot at roadblock

By Our Belfast Correspondent

A SECURITY operation was being mounted in Northern Ireland today for an inquest into the deaths of three IRA men which formed part of Mr John Stalker's inquiry into allegations that the RUC operated a shoot-to-kill policy in South Armagh six years ago.

Mr James Elliott, Ulster's only full-time coroner, is conducting the inquest, which will focus on the deaths of Gervaise McKerr, 31, Sean Burns, 21, and Eugene Toman, 21, who were shot dead at an RUC roadblock near Lurgan on November 11 1982.

Provision has been made for witnesses to be screened from the public if the coroner deems it necessary.

About 50 witnesses are expected to be called at the inquest, which is being held at Craigavon Court House. It is not clear if Mr Stalker, the former Greater Manchester deputy police chief, has been asked to give evidence.

Unlike the Gibraltar inquest, the jury will not be asked to return a verdict or allocate responsibility for the deaths. The coroner's task will be to hear the evidence, establish the identity of the deceased, when, where and how the deaths occurred, and to establish the details which have to be registered with the Registrar of Deaths.

Tory chosen for Brittan seat

THE Conservative Party has selected Mr William Hague, a 27-year-old management consultant, as its prospective parliamentary candidate for the by-election in the safe Tory seat of Richmond, North Yorkshire. The election was caused by the appointment of Mr Leon Brittan as Britain's senior European Commissioner.

Mr Hague won praise from Mrs Margaret Thatcher for a speech he made as a schoolboy at the 1977 Tory Party conference calling for individual initiative and effort to be rewarded.

The date for the by-election has yet to be announced.

● Earl Attlee, 61, son of the former Labour Prime Minister, has been selected by the Social Democrats to fight the European by-election in the Hampshire Central constituency on December 15, caused by the death of Mr Basil de Ferranti.

UK NEWS

City institutions attack council investment curbs

By Barry Riley

LEADING City institutions have protested that the Government is being too restrictive in its plans to control the way in which local authorities invest their surplus funds.

They have responded to a government consultative paper suggesting that local authorities should be permitted to invest their excess balances only in bank deposits and gilt-edged (government) securities.

According to the latest available figures, local authorities in June held £7.9bn of investments. The total has been rising, partly because of receipts from council house sales, coupled with the effects of spending curbs.

There has been concern that some authorities may have bought risky investments and may for instance have lost money during last year's stock market crash.

Those surplus funds are held for the authorities' own accounts and are quite separate from the £26bn local authority pension funds which are administered under different rules.

Ten fund management houses including County NatWest, Hambros, Lloyds, Mercury Asset Management, Schroders and Scrimgeour Citicorp, have combined to submit a response to the consultative paper. They say that with professional management local authorities may safely invest in a wider range of investments than those proposed.

According to Mr Les Komaromy of Scrimgeour Citicorp (Investment Management), spokesman for the group, a broad brush approach is not appropriate. "One has got to look at each case and apply prudent professional techniques," he said.

The institutions argue that local authorities should be permitted to invest in foreign government sterling issues and in foreign currency investments on the basis that the currency exposure would be eliminated through hedging.

Futures and options contracts should be allowed, but only in a manner that would reduce risk. Equities would often not be suitable investments, but in the longer term they have substantially outperformed gilt-edged investments, so they should not be ruled out where local authorities have a minimum investment time horizon of five years.

The institutions conclude: "We are of the firm belief that with defined strict investment guidelines and prudent professional management the concerns which the Government has expressed with regard to risk may be allayed."

Pension schemes' share purchases reach peak

By Our Financial Staff

OFFICIAL statistics for occupational pension schemes in 1987 reveal a record level of new investment in UK shares of £7.9bn. During the year the funds sold almost £2bn of gilt-edged securities and about £750m of overseas equities.

Capital gains on equities at home and overseas early in the year were more than wiped out by the effects of the October crash.

A rise in the aggregate market value of assets from £190bn to £196.9bn during the year did not quite match the £9.4bn of new money added. There was therefore a modest depreciation of the original funds.

The 1987 statistics show that pension funds held a record 52 per cent of their assets in the form of UK equity investments at the end of the year. A further 18 per cent was in overseas equities, down from 16 per cent a year earlier.

A few years ago, more than 20 per cent of pension fund assets were invested in gilt-edged, but that was down to 15 per cent last year.

The proportion seems certain to continue falling fast in view of the Government's budget surplus and its consequent buying-in programme for government stock.

The high level of UK equity purchases last year reflected heavy new issues by companies and by the Government, including its sale of BP shares.

Schroders advances its re-entry to unit trusts

By Barry Riley

SCHRODERS, THE City merchant banking group, is to re-enter the UK authorised unit trust market earlier than planned. It expects to market Schroder funds from October 1 next year rather than from the start of 1990.

The change is the result of talks with National Mutual of Australasia, the life assurance company to which Schroders sold its retail investment interests for £99m in 1986 in a capital-raising exercise.

Since then, unit trusts, life assurance policies and personal pension products have been sold by National Mutual under the name NM Schroder.

Schroder Investment Management has continued to manage the funds under an agreement lasting three years, however.

Schroders has been bound by agreement not to compete with National Mutual for retail investment business.

Recently the two companies have been negotiating the basis on which the investment management of the old Schroder funds would be handed over to NM.

It has been agreed that NM will assume responsibility for the general funds at the start of next year but some of the specialist funds will continue under Schroders' management until mid-1991.

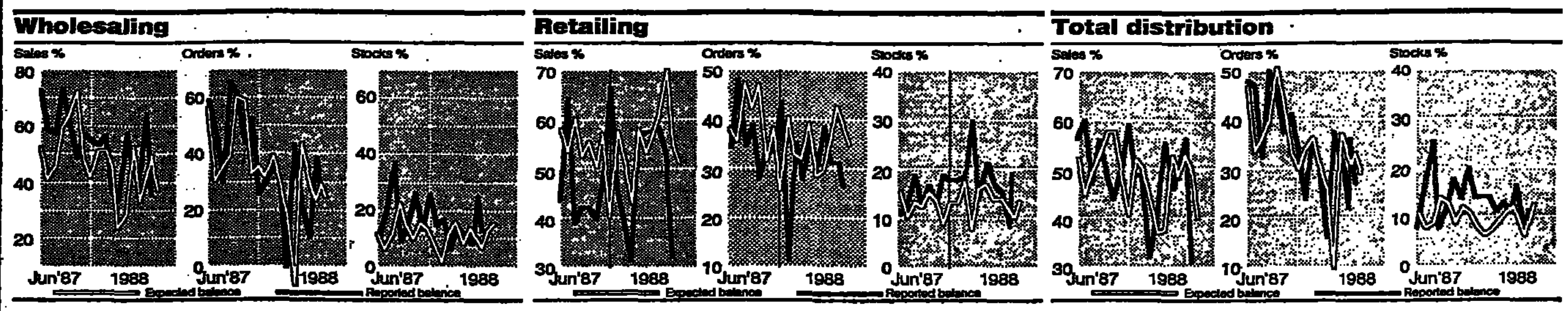
Mr David Mumford, a director of Schroder Investment Management in charge of unit trust business, said: "NM decided they didn't want to take over the management of all the funds at one go."

It has now been agreed that NM will phase out its use of the Schroder name by next April. From the start of October Schroders will be free to launch retail products under its own name.

It already has a group of privately marketed unit trusts, worth £650m, sold mostly to pension funds, as the basis for its new marketing initiative.

This compares with £750m worth of unit trust funds which it manages temporarily for NM under the agreement which is to expire.

CONFEDERATION OF BRITISH INDUSTRY/FINANCIAL TIMES DISTRIBUTIVE TRADES SURVEY



October sales growth fades as interest rate rises hit spending

By Ralph Atkins, Economics Staff

EXCEPTIONAL growth in retail sales during the summer faded last month, according to today's Confederation of British Industry/Financial Times distributive trades survey.

Retailers report that sales growth moderated in October and fell far short of expectations. It suggests that the sharp rise in interest rates from 7½ per cent at the end of May to the present 12 per cent may be starting to affect consumers' spending behaviour.

The results show that 54 per cent of the 298 retailers questioned said sales in October were higher than in the same month last year, but 22 per cent reported falls.

The balance of those reporting a rise minus those noting a fall was plus 32 per cent. That still suggests respectable growth but it was the lowest for any month since April.

It compared with balances of plus 59 per cent and plus 54 per cent in August and September respectively.

For November, a balance of plus 51 per cent expect sales to be higher than in the corresponding month a year earlier. This was also the lowest balance since April.

Moreover, retailers in the survey have often been over-optimistic about future sales. In the first 10 months of this year, sales have been below expectations on seven occasions.

The survey also points to a marked slowdown in sales growth by motor traders.

Vehicle traders reported that sales in October were lower than a year ago and expected the decline in sales growth to continue in November.

However, those selling parts and accessories reported a high positive balance last month. They were also optimistic about sales growth in November.

Out of the total of 59 motor traders questioned, a balance of plus 2 per cent reported sales increases in October compared with the same month a year earlier.

That was the lowest balance since November 1986 and compared with balances of plus 62 per cent and plus 25 per cent in August and September.

Mr Nigel Whittaker, chairman of the survey panel, said: "This is the second survey in succession that has indicated slower growth in retail sales and the summer sales boom now appears to be over."

The survey shows that a balance of plus 7 per cent of retailers said sales in October were good for the time of year – again the lowest since April.

The sectors reporting best sales growth in October included grocers and confectionery, tobacco and newspaper shops. Footwear, leather and specialist food shops reported sales lower last month than a year before.

For November, retailers of household textiles, furniture and carpets, and footwear and leather shops were most optimistic about sales.

Growth in orders placed by retailers in October was not as fast as expected. A balance of plus 36 per cent ordered more than in the same month a year earlier. For November, a balance of plus 35 per cent expect increased ordering relative to 1987 volumes.

The survey shows that among wholesalers, growth in sales volumes last month was also below expectations.

The balance of the 154 wholesalers questioned reporting increases compared to the corresponding month a year ago was plus 35 per cent – the lowest balance since May.

However, wholesalers reported sales for the time of year were better in October than in September.

Slightly faster sales growth is expected by wholesalers in November. Builders' merchants were most optimistic about sales increases and only agricultural machinery dealers expected no growth in sales.

UK NEWS

Daewoo to set up £18m VCR plant in Ulster

By Terry Dodsworth, Industrial Editor

DAEWOO, the South Korean industrial and electronics group, is expected to announce an £18m investment in a video cassette recorder manufacturing site in Northern Ireland today.

The greenfield expansion, probably on a site near Belfast, will carry the promise of around 500 jobs when the factory is complete.

It is the first large-scale investment in Northern Ireland by a Far Eastern electronics manufacturer and one of the largest job creation projects in the province over the past two years.

Daewoo's decision to transfer some of its VCR production to western Europe comes only two months after steep anti-dumping fines were imposed on the group as well as other Far Eastern producers by the European Commission.

The duties of 29.2 per cent levied on Daewoo VCRs were particularly high. They exceeded the penalties on its two large South Korean consumer electronics competitors – Goldstar (26.4 per cent) and Samsung (25.2 per cent) – both of which already have manufacturing sites in Europe for a number of electronics products. Goldstar manufactures VCRs and colour televisions in Frankfurt, West Germany.

Expansion in the electronics field by Daewoo has been slower in the past than by Goldstar and Samsung, which have moved aggressively into semiconductor production and a variety of consumer products such as televisions and microwave ovens.

Daewoo has played a significant role, however, in expanding South Korean VCR sales in Europe. They rose to 1.2m last year from 75,000 units in 1985.

Daewoo's shipbuilding subsidiary has recently run into trouble and has been seeking support for a Government-backed capital reconstruction plan. Daewoo ranks as South Korea's fourth largest industrial group, with annual sales of just under $12bn (£6.6bn).

Video rental market faces stagnation

By Raymond Snoddy

THE BRITISH video rental market, worth more than £400m last year, is facing the danger of stagnation and an inevitable shakeout in the number of outlets, a study forecasts.

Goodall Alexander O'Hare, a consultancy, argues that a combination of a slowing down in the rate of video recorder purchase and a gradual reduction in the frequency with which people rent films is a worrying trend.

The UK video rental industry, which last year paid about £65m in royalty payments to the film industry, could improve its performance by increasing the number of copies of "hit" films and making its premises more attractive to visit.

The arrival of a subscription film channel on satellite television might actually generate more interest in film for the video industry.

"Those outlets which cannot keep up are unlikely to survive as competitive standards increase," the consultancy says.

It believes that cinema, video, pay television and free television are complementary media and that the advertising and promotional efforts invested by one medium will often be of direct benefit to others.

Towards The 1990s – Developments in the British Video Market. Goodall Alexander O'Hare. Durham House, Durham House Street, London WC2N 6HG.

All-night TV may be aimed at professions

By Raymond Snoddy

THE COMPANY producing broadcasts for doctors, British Medical Television, is to seek an entire BBC night-hours channel if this becomes available for commercial use.

Last week the Government said in its broadcasting white paper that the night hours on a BBC TV channel should be assigned to the new Independent Television Commission for commercial use.

The BBC was told it could keep its other channel only if it used it as fully as possible for subscription services.

BMTV is the world's first subscription service broadcasting daily by air waves to doctors. Mr Laurence Greetham, chairman, said he sought a night channel to extend his concept to other professional groups. Services for nurses, pharmacists and broader groups, such as businessmen, are being studied.

BMTV is funded by advertising and by a subscription covering receiving-equipment cost. The company is paying the BBC about £1m a year to broadcast the hour-long subscription programme to specially adapted receivers in doctors' homes or surgeries.

Subscribers will number 2,000 by next month and rise rapidly because the Royal Society of Medicine is to supply the service to all its 10,500 members. A total of 13,000 receivers are on order from Philips, the electronics group.

A broadcast signal, scrambled so that only subscribers can watch, switches receivers on. Mr Greetham said: "If there is trouble with a batch of serum we can tell doctors within eight hours."

The programme carries news and educational material. It began broadcasting five days a week last month.

BMTV recently completed a financial restructuring with investment by Baring Brothers Hambrecht & Quist and by Churchill Livingstone, the medical publishing arm of Pearson, the group that publishes the Financial Times.

The Pearson investment has been made out of a £30m venture-capital fund aimed at investment in the new media.

An early casualty gets back into combat

David Lascelles continues a series about the impact of Big Bang on securities houses

LLOYDS BANK, smallest of the Big Four clearers, was never enthusiastic about Big Bang. It made only a limited entry into the securities business at the time.

Even that was too much. Two years later Lloyds stands out as the only British bank to have pulled back completely from the debt and equity markets in the UK.

At its headquarters in Lombard Street, Sir Jeremy Morse, the chairman, and Mr Brian Pitman, the chief executive, view their decision with some satisfaction, particularly in the light of the losses other banks have suffered through the collapse of the securities markets.

However, the brunt of Lloyds' strategic switch was borne a few yards down the road by Lloyds Merchant Bank (LMB), which underwent a wrenching transformation as a result of the retreat. It is now much reduced in size, but is fighting to re-establish itself.

Mr David Horne, the managing director who took over at the beginning of this year, says his job is "to rebuild morale, reputation and credibility, and I think we are making progress on all those fronts."

LMB was created for Big Bang out of Lloyds Bank International, which previously handled the group's merchant bank and capital markets activities. Headed by Mr Robert Owen, a former Morgan Grenfell director, it included Lloyds' Eurobond business, a new official gilt-edged dealer capitalised at £25m, a fund management business, development capital and other merchant bank services.


Lydia van der Meer

David Horne: Rebuilding morale

The conspicuous absentee was an equities dealing and broking operation. Lloyds had decided it wanted to stay out of that business, although it did create Sharedeal, a buy-and-sell service for its branch customers.

By the end of 1986, LMB had capital of £135m, a balance sheet of £1.6bn and staff of 800. It was to exist in that form for a further six months only.

After piling up losses in the gilts and Eurobond markets, LMB decided to call it a day in June 1987 and pull out of both those markets, thus becoming the first conspicuous casualty of Big Bang.

Within a few months, several hundred people had been laid off or transferred, Mr Owen had resigned, and LMB had retreated to find a new role for itself.

Today LMB's staff is down to 370 and its capital to £50m. All its remaining market activities, including its US treasury bond dealership, have been switched to Lloyds Bank's newly integrated treasury division, and instead it is concentrating on the less capital-intensive businesses: corporate finance, development capital, investment management and stockbroking.

"This is a year of consolidation," says Mr Horne. "We have to get back on the road and become profitable."

The first sign of LMB's progress came with Lloyds' interim results in July. It turned in a pre-tax profit of £5m, not a huge sum of money but better than the £30m loss it incurred in 1987 and the £28m loss the year before that. Mr Horne claims that all parts of the bank are "very busy" except for Sharedeal which is suffering from the market doldrums.

The corporate finance department, headed by Mr Richard Fortin, is seeking to build up a client base in the middle-sized company market, rather than the blue chip companies where competition among merchant banks is intense.

Mr Fortin says: "There's a lot to go for in the middle range, and there are no short cuts to the stars." About half of the department's clients come from outside the clearing bank, and the bank's score of placings and acquisitions is growing. LMB has also done a fair amount of government work, most recently on the proposed privatisation of the Tote.

Investment management is one area that has shown steady growth, in spite of the upheavals. From its beginnings as manager of the in-house pension fund, the department now controls £5.8bn in funds. There is also a 24.9 per cent interest in Weiss, Peck & Greer, a New York fund management and venture capital firm, and Mr Nigel Hurst-Brown, the executive in charge, predicts that the next phase of expansion will be in the Far East and the Continent.

LMB claims that its development capital business puts it among the 10 largest in the UK. This year it expects to make investments worth £17m-£20m, up from £11m last year. That part of LMB will be at the forefront of a planned expansion on to the Continent.

The one disappointing area is Sharedeal, which has about doubled its staff to 85 since Big Bang but has seen a sharp drop in business. The expected number of transactions this year is 130,000, down from 167,000 last year. But it makes a small profit and expects to expand with the establishment of a new regional processing centre in Birmingham, where it recently bought a small private client stockbroking firm, Chambers & Remington.

Having survived all those traumas, how does LMB feel about its new shape?

Mr Horne maintains that not having a market-making and distribution arm is a positive advantage. "Blue chip companies are very concerned about conflicts of interest," he says, pointing out that there are now several highly successful merchant banks in the City that specialise in advisory work rather than market dealing.

He also claims to have the full backing of Lloyds now that it has pulled out of the business of risking the group's capital in the markets. "I see no sign at all of a lack of commitment by Lloyds Bank," he says.

However, now that LMB is back on its feet, he also wants to assert its separateness from the parent, and its merchant banking culture. "I'm very happy to say that the balance sheet side should be done by the clearing bank, and we'll stick to the advisory and fee side," says Mr Horne.

His ambition is to pull LMB up into the top ranks of merchant banking, although he admits that will take several years.

Drugs tests 'often marketing exercises'

By Peter Marsh

DOCTORS should be cautious about taking part in trials organised by pharmaceutical companies investigating the effects of new drugs, a report published by the Consumers' Association says today. It says the trials may be little more than marketing exercises, of limited scientific use.

The report appears in Drug and Therapeutics Bulletin, a newsletter for physicians published by the association. It says that studies of the effects on patients of a new drug once the product is in widespread use can be invaluable.

Such investigations can be conducted by government bodies, independent health care organisations or drug companies themselves, the report says. They can pinpoint defects in the medication that might not have appeared during clinical trials before marketing.

According to the report, however, some post-marketing trials organised by drug companies "are little more than concealed marketing, encouraging doctors to prescribe the drug under study which patients may then continue to take for many years."

It adds that doctors may be given payments to participate in the trials. It says the payments are clearly financial inducements to boost the rate at which new drugs are prescribed.

Doctors should scrutinise closely the conditions of post-marketing trials in which they are invited to take part, the report concludes. In particular, they should determine the degree to which the trial is intended to produce hard scientific and medical data.

Drug and Therapeutics Bulletin, vol 26 no 23. Consumers' Association, 2 Marylebone Road, London NW1 4DX.

Inco to invest £12m at mill

INCO, the Canadian nickel company, is to spend US$19.6m (£12m) to modernise and expand its Hereford rolling mill. The company says this is its largest single capital investment at the plant since 1953, when it moved there.

Construction will start early next year and take some years at the mill, which processes alloys with a high nickel content used in applications such as aerospace or chemical plant, in which resistance to heat and corrosion is vital.

LEGAL COLUMN

Counting on accountants for litigation advice

By Raymond Hughes

AS THE Law Society prepares to discuss with the governing bodies of other professions, including accountants, the pros and cons of multi-disciplinary partnerships, a book has been published dealing with the assistance that accountants can give lawyers in litigation.

Written by two partners at Coopers & Lybrand, a City accountancy firm, Litigation Support is a timely reminder of the need, particularly in the complex commercial disputes that occupy an increasingly large part of the litigation scene, for specialist professional expertise beyond that normally available even in large City law firms.

The book, apart from its immediate relevance to accountants and lawyers, implicitly points up the need for some form of closer association between the two professions – and, by extension, between lawyers and members of other professions – if their clients are to be given the best possible service.

It deals with what is known, more widely in the US but also to some extent in the UK, as forensic accountancy, which has been defined as the application of accountancy knowledge to legal problems. That requires the bringing together of skills in auditing, taxation and management consultancy as well as knowledge of accounting, which can be applied in a wide range of legal areas, from matrimonial cases to personal injury claims, from breach of contract to business interruption, from fidelity claims to fraud.

The term surfaced in the UK four years ago when Touche Ross, another City accountancy firm, announced that it was setting up a 15-strong team drawn from the various areas of the firm's activities to satisfy the growth in demand for forensic accountancy services. (Interestingly, Touche Ross described the team as "multi-disciplinary".)

The book shows the need for closer association between lawyers and those in other professions

Authors Donald Chilvers, head of Coopers & Lybrand's litigation support practice, and Chris Lemar can (and do) claim with some justification that Litigation Support – which comes with a laudatory foreword by Lord Alexander of Weedon (better known as Robert Alexander, QC) – fills a gap in the UK literature of both accountancy and the law.

It looks at the accountant as expert witness, explaining how he can make the best contribution to the litigation process and how lawyers can make the best use of his expertise – not least to reduce the time and expense of litigation.

Lord Alexander comments in his foreword ". . . the advice to experts is of itself advice to lawyers as to the problems facing the experts, how their minds work and how to approach the task of getting the best out of them. I would not be surprised if the hints on the giving of evidence were not almost as useful to the lawyers as they will be to the experts themselves."

The book is divided into two sections: the first dealing with the professional and technical aspects of forensic accountancy (or, as the authors prefer to call it, litigation support), the second explaining legal and court procedures.

Chilvers and Lemar remind their accountant readers that the world of the lawyer, especially when he is engaged in litigation, is quite different from that of the rest of the commercial community. He runs the case and decides strategy and will be at a loss if he meets an accountant who does not appreciate his problems.

"He will not think it part of his job to try to understand the world of the accountant, nor will he take kindly to having to start from scratch and educate the accountant about court procedures and requirements."

Chilvers and Lemar say that the growth of demand for litigation services owes much to the proliferation of commercial law and to changes in the business environment, such as the Big Bang. Particularly, they cite revisions of the Companies Acts, the introduction of the Financial Services Act, insolvency legislation and consumer protection and environmental measures.

Another significant change they see is increasing public concern about the high cost of litigation which can make it uneconomical to pursue commercial disputes, irrespective of their merits.

"Much of the problem," they suggest, "derives from the 'litigator's dilemma' in which lawyers are torn between a wish on the one hand to do all that is necessary to obtain the right result for their client and an equal and opposite reluctance to do too much too early."

The authors point to a tendency among lawyers to delay consideration of quantum – the amount of compensation if liability is established – until late in the litigation process. They suggest that there will often be advantages in commissioning at least an initial study of quantum before firm positions are taken, saying that, if this were done and the accountancy experts' reports exchanged at an early stage, the parties might conclude that the gap between them made the litigation uneconomic.

Chilvers and Lemar say that all too often the accountant is brought into a case at a stage when battle lines have been drawn and the two sides have established fixed positions.

'The experienced expert will develop a sixth sense about what is likely to be a fair settlement'

They list examples of the contribution the expert accountant brought early into a litigation team can make:

- Giving preliminary advice on quantum following examination of the pleadings and preliminary evidence.
- Briefing counsel on accounting and financial aspects of the case prior to trial.
- Preparing a detailed expert's report following the review of all available evidence.
- Reviewing expert accounting or other financial reports submitted by the other side.
- Advising on payments into court.
- Advising solicitors and counsel during the trial.
- Giving oral evidence at the trial.
- Assisting with settlement negotiations.

In addition, the expert would be on hand to, inter alia, negotiate the interest element, reach agreement on the quantum of items of claim where liability is not in dispute and advise on tax questions.

Chilvers and Lemar claim (somewhat unforensically) that "the experienced expert will develop a sixth sense about what is likely to be the final figure for a fair settlement once the liability questions have been sorted out."

More scientifically, they go on to say, by reference to their own experience, that "typically commercial claims are settled at around 10-20 per cent of the original claim."

They say that lawyers tend to treat quantum rather casually at the initial stages, with sums being done on the principle: "If it is over the top we can sort it out later."

That approach, say Chilvers and Lemar, can be disastrous – when, for example, by exaggerating the quantum the lawyer and his client mislead themselves into fighting a case which will not stand up to expert validation.

Litigation Support: and the Financial Assessment of Damages. D.R. Chilvers and C.J. Lemar. Butterworths. £55.

LEGAL APPOINTMENTS

LAW SOCIETY ADMISSIONS 1ST NOVEMBER 1988

ADDISON, Michael John LLB Mr, London
AINA, Olubanke Adepike Carol BA Ms, London
AIREY, Denise Ann LLB Miss, Blackpool, Lancashire
AJAI-AJAGBE, Elizabeth BA Miss, London
AKITT, Ian Alasdair LLB Mr, Feltham, Middlesex
ALDER, Elizabeth Ann Sarah BA Miss, London
ALDRICH, Maxine Eleanor BA Miss, Oxted, Surrey
ANDREWS, Katherine Margaret Jane LLB Ms, Sunderstead, Surrey
ANDREWS, Patrick Duncan David LLB Mr, Stanford Dingley, Berkshire
ARNOLD, Astrid Elizabeth BA Ms, London
ATHERDEN, Simon Philip LLB Mr, Warley
ATKINSON, Richard LLB Mr, Newcastle upon Tyne
AUCKLAND, John Neil BSc Ph.D Mr, Sheffield
AUSTIN, Edward Richard LLB Mr, Sidcup, Kent
BANKS, Valerie Catherine LLB Miss, Cardiff, South Glamorgan
BARKHAM, Caroline Jane BSc Miss, London
BARNETT, Gary Dean Raymond LLB Mr, London
BARRY, Wanda Jane LLB Miss, St Albans, Hertfordshire
BASSETT, Caroline Anne B.A. Miss, London
BATES, Simon Paul B.A. Mr, Birmingham
BAYMAN, Henry Michael Ian MA Mr, Sheffield
BEARDSMORE, Stephanie Judith LLB Miss, Leyburn, North Yorkshire
BECKWITH, John Simon LLB Mr, Leeds, West Yorkshire
BEDNALL, Nicola Juliet Jane LLB Miss, London
BELLM, Simon LLB Mr, Hove, East Sussex
BENJAMIN, Philip Richard LLB Mr, Edgware, Middlesex
BERNSTEIN, Wendy Esther B.A. Miss, Edgware, Middlesex
BILLINGS, Laura Frances B.A. Mrs, Bampton, Oxfordshire
BILLINGS, Martin John BA Mr, Bampton, Oxon
BIRRELL, Nigel Norman LLB Mr, London
BISATT, Duncan Webster BA Mr, Northampton, Northamptonshire
BISHOP, Jill LLB Ms, Leicester, Leicestershire
BLACK, Debra Gillian LLB Miss, Wirral, Merseyside

COMPANY NOTICES

RENTALS

PERSONAL

DIARY DATES

FINANCIAL

TODAY
COMPANY MEETINGS-
Britannia Security, Charing Cross Hotel, Strand, W.C., 12.00
Green (Ernest), 36, St. Andrew's Hill, E.C., 10.30
BOARD MEETINGS-
Finals:
F & C Eurotrust
Genzer (U.K.)
Tubular Exhibition Group
Wardle Storey's
Interims:
ASW Hldgs.
BOC Group
Cater Allen Hldgs.
Fairbriar
Fleming Far Eastern Inv.
Honda Motor
Isopad Intl.
Lilley (F. J. C.)
London Intl. Group
Marshalls Halifax
Schroder Money Fd.
Stratton Inv. Tst.
Unilever
DIVIDEND AND INTEREST PAYMENTS-
Abingworth 1.25p
Arcolectric Hldgs. 0.44p
Do. A NV 0.44p
BBA Group 1.45p
Barrangulite Invs. 5½% 1st Mtg. Deb. 87/92 2.75pc.
Do. 7¼% 1st Mtg. Deb. 89/91 3.625pc.
Chase Manhattan Corp. Fltg. Rate Sub. Nts. 2000 $224.64
Clarke, Nickolls & Coombs 1.25p
First Chicago Corp. Fltg. Rate Sub. Cap. Nts. 1997 $233.1
Korea Exchange Bank Fltg. Rate Nts. 2000 $414.32
Kwik-Fit Hldgs. 1.04p
Leumi Intl. Invs. NV Gtd. Fltg. Rate Nts. C 1987 $41.33
London & Scottish Marine Oil 2.5p
Mezzo 4 2.2p
National Westminster Fin. Junior Gtd. Fltg. Rate Nts. $211.26
Page (Michael) Group 0.5p
Pennant Properties 2p
RKF Group 1.125p
Scholes (G. H.) 11.5p
Wells Fargo & Co. Fltg. Rate Sub. Cap. Nts. 1998 $224.47
Whittington 0.2p
Worcester Group 0.82p
World of Leather 0.5p
TOMORROW
COMPANY MEETINGS-
Cray Electronics, 118, Pall Mall, S.W., 12.00
Fil Group, The Howard Hotel, Temple Place, W.C., 12.00
Polytechnic Electronics, Royal Oak Way, Daventry, 11.00
BOARD MEETINGS-
Finals:
Control Techniques
Hatfield Estates
London Entertainments
Raine Inds.
Tomkinsons
Yeoman Inv. Tst.
Interims:
AAH Hldgs.
British Airways
De La Rue
Granyte Surface Coatings
Great Portland Estates
Just Rubber
Mayne Intl.
Normans Group
Sotheby's Hldgs.
Southnews
Tanyong Tin Dredging
Thames TV
Trinnco
Unigate
Warnford Invs.
Whitbread
DIVIDEND AND INTEREST PAYMENTS-
Abbott Labs. 30cts.
Australian Agricultural 10cts.
Barclays Bank 8¼% Uns. Cap. Ln. 86/93 4.125pc.
Beattie (J.) 6¾% 1st Mtg. Deb. 88/90 3.375pc.
Birmingham District Council 11½% Red. 2012 5.75pc.
British & American Film Hldgs. 2.275p
British Sidac 6½% Deb. 85/90 3pc.
Brunswick Corp. 11cts.
Burndene Invs. 15% Uns. Ln. 07/12 7.5pc.
Chase Manhattan Corp. 54cts.
Colgate-Palmolive 37cts.
Cons. Gold Fields 22p
Conversion 10% 1996 5pc.
Do. 9¼% 2005 4.875pc.
Exchequer 10¼% Conv. 1989 5.625pc.
Do. 13¼% Ln. 1990 6.625pc.
F & C Smaller Co's. 6% Prf. 2.1p
Hambros Inv. Tst. 6% Prf. 1.75p
Hanimex Corp. 5cts.
Hasbro 5cts.
Inter-American Dev. Bank 9¼% Ln. 2015 4.375pc.
Newcastle & Gateshead Wtr. 7% (Fmly. 10%) Max. Cons. 3.5p
Do. 4.9% (Fmly. 7%) Max. Cons. 1976 2.45p
Do. 4.9% (Fmly. 7%) Max. Cons. 1998 2.45p
Do. 4.2% (Fmly. 6%) Max. 2.1p
Do. 3.5% (Fmly. 5%) Cons. Prf. 1.75p
Do. 2.45% (Fmly. 3½%) Pref. Prf. 1.225p
Pacificorp 63cts.
Royal Tst. Dollar Inc. Fd. Ptg. Red. Prf. 2.5cts.
Royscot Fin. BV 11⅛% Gtd. Bds. 1993 5.5375pc.
Scottish American Inv. 4% Irrd. Deb. 2pc.
Standard Life Assurance 5% Perp. 2.5pc.
TR Ind. & Gen. Tst. 1.3p
Treasury 3% 1989 1.5pc.
Do. 12½% Ln. 1993 6.375pc.
Warner Comms. 14cts.
Willis Faber 2.55p
WEDNESDAY NOVEMBER 16
COMPANY MEETINGS-
SPS Consultancy, 25, Haymarket, S.W., 11.00
BOARD MEETINGS-
Finals:
Concentric
Land Securities
Interims:
Allied Irish Bank
BAA
Beecham
Brownlee
Cable & Wireless
Highland Parks
Personal Assets Tst.
Regalian Props.
Royal Ins. Group
Sketchley
Ultramar
Wagon Inds.
Wilton Inv. Co.
DIVIDEND AND INTEREST PAYMENTS-
Bank of Scotland Und. Fltg. Rate Prim. Cap. Nts. $408.68
Bankers Tst. Intl. Cap. NV Gtd. Fltg. Rate Sub. Nts. 1996 $226.21
Forsta Sparbanken Sub. Fltg. Rate Nts. 1996 $206.04
Harvey & Thompson 5p
PFC Intl. Portfolio Fd. Ptg. Red. Prf. (Balanced (Stlg.)) 1.6cts.
Do. Ptg. Red. Prf. (Sterling Inc.) 2.4p
SD-Scicon 0.276p
Treasury 3% IL 1994 £0.7727
Weir Group 2.25p
Wells Fargo & Co. Fltg. Rate Sub. Nts. Feb. 1997 $226.61
THURSDAY NOVEMBER 17
COMPANY MEETINGS-
Barratt, Connaught Rooms, Great Queen Street, W.C., 10.30
Druck, Fir Tree Lane, Groby, Leicester, 12.00
Geer (S. R.), 8 Harewood Road, N.W., 12.00
Isotron, Howard Hotel, Temple Place, W.C., 12.00
Pamus, Palace Road, N., 12.00
BOARD MEETINGS-
Finals:
Australian Inv. Tst.
Burton Group
Capital Radio
Jessups
Morland & Co.
Westpac Banking Corp.
Interims:
British Telecom
Bulgin (A. F.)
Dairy Corn
Foster (John)
Henriques Drugs
Locker (Thomas)
Pentos
River & Mercantile Tst.
Shires Inv.
600 Group
Tex Hldgs.
Trenton Hldgs.
Young & Co's Brewery
DIVIDEND AND INTEREST PAYMENTS-
Commercial Union Assurance 7.35p
Daughlin 1.2p
EBC Group 3.6p
Electricite de France 11⅞% Gtd. Ser. Ln. 09/12 (Reg.) 5.875pc.
Goodwin 0.6p
Harding Group 1.7p
Johnstone Press 1p
Kwahu 1.8p
London & Manchester Group 3.3p
Musterlin Group 1p
Orchid Technology 2.5cts.
Sun Life Assurance Society 12.68p
Treasury 9% 1994 4.5pc.
FRIDAY NOVEMBER 18
COMPANY MEETINGS-
Bejam, Butchers Hall, 87 Bartholomew Close, E.C., 12.00
Lyles (S), Wakefield Post House Hotel, Queens Drive, Ossett, 12.00
Synapse Computer Services, Barrington House, Gresham Street, E.C., 12.15
BOARD MEETINGS-
Finals:
British Empire Securities
Govett Atlantic Inv. Tst.
Interims:
British Gas
Brown Shipley
Portsmouth & Sunderland News
UPL Group
DIVIDEND AND INTEREST PAYMENTS-
Arlington Securities 1.9p
Armstrong Equipment 2.4p
Bario Group 1.25p
Barratt Developments 5.37p
Brooks Service Group 1.6p
Canalflin Group 1.347p
Delaney Group 1.3p
Dewhirst (I. J.) Hldgs. 0.27p
Evered Hldgs. 1.5p
Expamet Intl. 3.4p
Folkes Group 0.35p
Do. NV 0.35p
Helical Bar 0.8p
Jacks (Wm.) 0.9p
Jones Group 3p
Keep Tst. 3.75p
Lloydstrust Gilt Fd. Ptg. Red. Prf. 28p
London Merchant Securities 2.3p
Malaysia Mining Corp. Berhad 2sen.
Meat Trade Suppliers 1.875p
Memec 1.4p
New Zealand Fltg. Rate Nts. 1997 £146.11
Nu-Swift Inds. 6p
Quicks Group 1.5p
T & N 3.1p
Thermo Co. 3p
Thurgar Bardex 0.65p
Treasury 10% 2004 5pc.
United Friendly Insurance B 9.5p
Waterman Partnership Hldgs. 1.5p
Young (H.) Hldgs. 3p
SATURDAY NOVEMBER 19
DIVIDEND AND INTEREST PAYMENTS-
Caterpillar 18.75cts.
Exchequer 9% 2002 4.5pc.
Treasury 10½% 1999 5.25pc.
SUNDAY NOVEMBER 20
DIVIDEND AND INTEREST PAYMENTS-
Birmingham District Council 13½% 1989 6.75pc.
Chartercorp 0.218p
Exchequer 12% 1998 6pc.
Osterreichische Landerbank AG Fltg. Rate Sub. Nts. 1994 $204.92
Portugal (Rep. of) 9% Ln. 2016 (Reg.) 4.5pc.
Security Pacific Corp. 45cts.
Treasury 2½% IL 2003 £1.0022
Do. 2½% IL 2009 £1.0622

PARLIAMENTARY

Today

Commons: Remaining stages of Road Traffic Bill, Road Traffic Consequential Provisions (Bill) and Road Traffic Offenders Bill.

Debates on motions taking note of European Community documents on safety in the workplace, risks to workers from biological agents, tar yields of cigarettes and the labelling of tobacco products, waste from the titanium dioxide industry and the dimensions of articulated vehicles.

Lords: Consideration of Commons amendments on the Road Traffic Bill, the Road Traffic Offenders Bill, the Road Traffic Consequential Provisions (Bill) and the Housing Bill.

Motions for approval on education, criminal justice and consumer protection orders.

Question to Government on the relationship between the tourist industry and the Government.

Select committees: Home Affairs: subject, forensic science service. Witnesses: Mr F. Jordan, Chief Constable of Kent; and Mr A. Mullett, Chief Constable of West Mercia. (Room 15, 4:15 p.m.)

Public Accounts: subject, assistance to small firms. Witnesses: Mr Geoffrey Holland, permanent secretary, Environment Department; and Mr R.J. Dawe, director-general, Training Commission. (Room 16, 4:30 p.m.)

Televising of Proceedings of the House. Witnesses: BBC and IBA (Room 8, 4:45 p.m.)

Tomorrow

Commons: Prorogation of the House, meeting at 9:30 a.m.

Lords: Royal Assent and prorogation.

The new session of Parliament will be opened by the Queen on Tuesday, November 22.

Trade Fairs and Exhibitions: UK

Current
International Woodworking Exhibition - WOODMEX (01-486 1951) (until November 16)
NEC, Birmingham

November 15-17
Food Ingredients Europe Exhibiton and Conference (0483 426608)
Wembley Conference Centre

November 22-27
Antiques Fair (04447 2514)
Barbican

November 22-25
International Pharmaceutical, Cosmetics, Toiletry and Allied Industries Exhibition - INTERPHEX (01- 891 5051)
NEC, Birmingham

November 24-27
National Festival of Crafts (04252 72711)
NEC, Birmingham

November 29-30
Institute of Gas Engineers meeting and exhibition (01-245 9811)
Wembley Conference Centre

November 29-December 3
World Travel Market (01-940 6065)
Olympia

December 1-3
Cash and Carry Fashion Show (01-727 1929)
Kensington Town Hall

December 5-8
Royal Smithfield Show & Agricultural Machinery Exhibition (01-235 0315)
Earls Court

December 9-12
Clothes Show (01-834 1717)
Olympia

Overseas Exhibitions

Current
International Refrigeration, Ventilation, Air Conditioning and Heating Exhibition - REVAC (01-940 3777) (until November 17)
Jeddah

November 23-29
International Garment Manufacturing Equipment and Machinery Exhibition - GARMENTECH (01-236 2399)
Beijing

November 27-December 4
International Tourism Exhibition - TOURISTICAFRANKFURT (01-734 0543)
Frankfurt

November 30-December 3
International Office Environment Show - JAPAN OFFICE (01-486 1951)
Tokyo

December 1-4
Art and Antique Dealers Exhibition - VKA (01-236 0911)
Stuttgart

December 7-16
Children's World Exhibition (01-437 3344)
Kuwait

December 8-11
Singapore Informatics Exhibition (01-589 1943)
Singapore

December 13-16
International Defence Equipment Exhibition and Conference - DEFENCE ASIA (0494 729406)
Bangkok

Business and management conferences

November 14-15
Business Research International: EC 1992-The changing face of European investment services (01-637 4383)
Portman Intercontinental, London

November 14-15
Financial Times Conferences: World electricity (01-925 2323)
Hotel Inter-Continental, London

November 15
RASE/ADAS: Harnessing the new technologies for profitable beef breeding and production (0203 696969)
National Agriculture Centre, Stoneleigh

November 16-17
Unicom: Object orientated programming: fundamentals and scope of application (0895 56484)
Mount Royal Hotel, London

November 17
IRRG: Helplines - telephone assistance for insurance and other customers (01-236 2175)
Aldermary House, London

November 18
The Economist: The leadership dimension: strategies for creating tomorrow's leaders today (01-839 7000)
Cumberland Hotel, London

November 18-19
CLES: Local State Local Enterprise (061 834 7036)
Newcastle-upon-Tyne

November 21-22
Financial Times Conferences: Europe 1992 and beyond: stragies for European business (01-925 2323)
Hotel Inter-Continental, London

November 23-24
Spectra: Electronic marketing in retailing (0734 320177)
Connaught Rooms, London

November 24
Tolley Conferences: Compliance for accountants-a practical conference on the obligations of auditors (01- 686 9141)
London Press Centre

November 25
Qubix Conferences: A case for change-the challenges facing the legal profession today (01-861 1971)
City Conference Centre, London

November 29-30
Financial Times Conferences: Private health care (01-925 2323)
Hotel Inter-Continental, London

LETTERS

Indifferent to BR's future

From Mr Rolf Schmid.

Sir, It is painfully ironic to watch the nation that gave birth to the railway seem so tragically indifferent to its development – at a time when other countries (France, Germany, Spain, Switzerland) are improving theirs.

But it is more than that: none of the options for British Rail's future, listed in Kevin Brown's article (November 2), address the real problem.

The fact is that the railway already is competing with road and air transport. For railways to start vying against each other is simply absurd. If anything, the imbalance between road and rail should be narrowed by investing more in railway infrastructure.

It is evident from the Autumn Statement that the opposite is happening: road construction will be partly financed by reducing BR's external finance limit by some 40 per cent.

Promoting the use of the private car may be desirable, but it is not more efficient than either travelling by train or bus. A cost-benefit analysis would reveal precisely what the Royal Town Planning Institute's transport working party accuses the Transport Ministry of doing: "... we are increasingly being asked to accept the pricing of the market place – a market which pays no direct regard to the cost of accidents and policing, to pollution and other forms of environmental damage, or to delays and reductions in travel opportunities experienced by others" ("Which Way For Transport?" November 4).

The same working party rightly points out that what we really need is a "co-ordinated" transport policy with a "coherent pricing regime".

We must hope that the Government will learn, before it is too late, that quick remedies tend to beg for real solutions.

Rolf Schmid,
Dorfstrasse 38,
8310 Grafstal,
Switzerland.

Freight transport compared

From Mr J.F. Watson.

Sir, I read with interest your article (November 2) on the waning share of freight traffic taken by British Rail. On a recent visit to Manitoba, Canada, and Maryland, USA, I was impressed by the remarkably low proportion of heavy goods vehicles on the roads.

How do they manage things so much better in North America? Distance may be a factor in Canada, but hardly so in the US north east. It cannot be a privatised railway system; Amtrak is hardly that. Perhaps the tollroad system and other sanctions balance road/rail economics more fairly.

J.F. Watson,
Appledore,
Kingshill Way,
Berkhamsted, Hertfordshire

'We have no choice'

From Mr Raihan Mahmud.

Sir, I have been travelling on London Transport for the last eight years, along with many friends who also use this most undesirable service. We have no choice, and we suffer every morning from delays, cancellations, over-crowding, dirt and mismanagement.

I use Pinner station. Despite recent renovations, there are many things left to be done: in the gents' waiting room there is no ventilation; the platform shed still leaks. The staff, particularly on the barrier, are ill-informed, uneducated, rough and rude.

No amount of London Transport regrets and apologies will make up for the suffering that thousands of people have to go through each day. Millions of hours are wasted in delays for thousands of commuters. It will get worse when winter approaches. The signals problem will start, points will freeze – goodness knows what else. I hope to see the day when the trains run on time, helping Mrs Thatcher achieve the greater productivity the poor woman is dying to achieve.

Maybe I am the most bitter commuter, maybe there are those more bitter than I am, but I have to express my opinion. I would hope that by your highlighting the issue we may have the service improved, so that people can travel in peace and tranquillity without pushing, shoving and getting on each others' toes, and having to explain every day to their bosses why they are late.

Raihan Mahmud,
100 Woodhall Gate,
Pinner, Middlesex.

Small company audit should be retained

From the President, The Chartered Association of Certified Accountants.

Sir, I can understand that some accountants may feel annoyed that the Government has come down in favour of the retention of the small company audit, although I note that much of the protest so far has come from those with the large multinational practices.

I therefore wonder just how much experience they have of the small company sector, and the reliance which the business community places on its professionally audited accounts?

It may be true that with many very small proprietor-managed companies, the audit element of the work done by the practitioner is only quite small. However, to suggest that this generalisation should be extended across the board to include the many quite substantial businesses that fall within the small company categorisation defined in the Companies Act is patently absurd.

This association has campaigned vigorously for the retention of the small company audit. It has consistently made the point that audited accounts are relied upon by banks and other financial institutions when they are considering borrowing applications, and by large companies when they are making dealership appointments and awarding supply contracts. Audited accounts are also an essential source of financial data for credit-rating agencies when compiling status reports.

It should also be borne in mind that some small companies aspire to the bigger leagues of the unlisted securities market (USM) or a stock market listing, and an earlier history of annually audited accounts assumes great importance.

As for the argument that the European Commission will shortly impose abolition of the small company audit via its Fourth Directive: it has still got to make its case.

From my own recent experience of discussions with representatives of other European accountancy bodies, I have become aware that there are others in Europe who share our view that the small company audit must be retained.

Desmond Goch,
The Chartered Association of Certified Accountants,
29 Lincoln's Inn Fields, WC2

'The battle for a free EC market is already half lost'

From Mr Phillip Oppenheim MP.

Sir, I am inclined to agree with Bryan Cassidy MEP ("Most of us have our anxieties about 'fortress Europe' after 1992," Letters, November 1). Far from the European Commission rejecting protectionism – if you listen carefully you can clearly hear the carpenters and masons who are already well advanced in the construction of "fortress Europe."

Some time ago the European Commission imposed import quotas on non-European Community (EC) steel – something too easily overlooked when British Steel's performance is considered.

Video cassette recorders, televisions and compact disc player imports are limited by quotas, while copiers, typewriters and computer printers are subject to spurious "anti-dumping" duties – with semi-conductors and fax machines under consideration for similar treatment.

In addition, the European Commission is still talking about replacing national car import limitations, which affect only a few EC countries at present, with a Community-wide 15 per cent quota on Japanese cars after 1992.

By acceding to the whining of European industrial lobbies for protection, the European Commission is penalising Asian producers who have had the temerity to make and market high quality, low cost products. In doing so, far from helping European manufacturers, the Commission is merely compounding their inefficiencies, raising costs for both industrial and private consumers, and putting off the day when we will have to recognise and emulate the real causes of Japanese success.

In the meantime we risk the division of the world into antagonistic trading blocks of the type which were an important contribution to the tensions of the 1920s and 1930s.

It is sad that our Government, which has done much to de-regulate and free markets, should so meekly acquiesce to the European Commission's perilous protectionist policy, while perpetuating not a few of its own national measures.

These include the "gentleman's agreement" which limits car imports at a huge cost to buyers and little or no benefit to the UK car industry; and a series of national "licensing agreements which curb steel imports from minor producing nations.

The battle for a genuine free market in Europe is far from being won. Sadly, it is already half lost – and everyone in Europe will be the poorer for it.

Phillip Oppenheim,
House of Commons, SW1

Movement of goods is vital

From Mr Peter Coles-Johnson.

Sir, In "Business urges private cash for transport" (November 2) you draw attention to strong support that chambers of commerce give to the private sector in promoting infrastructure developments.

You do not, however, indicate why. In particular you do not mention the fact that links to the European continent is the number-one issue facing us in the provinces, particularly in the north of England.

Two events are about to have fundamental effects on business life: the creation of the single European market, and the construction of the Channel Tunnel. Taken together they mean significant changes in our trading patterns.

On the one hand, opportunities for trade on the continent are bound to increase. Our chamber confirmed this in a recent trade mission which we launched to France in conjunction with Barclays Bank. On the other hand, we shall also face an increasing challenge from overseas competition, notably in our affluent consumer markets in the south east of England.

As matters stand, though, there is a danger of the UK being on the periphery of the most affluent areas of Europe – with the north on the periphery of the UK.

In these circumstances the movement of goods becomes a vital question, particularly in relation to rail transport. As the members of this chamber are increasingly pointing out, the "just in time" principle is becoming more and more common on the continent, and both competitive delivery times and prices are pre-requisites for winning business.

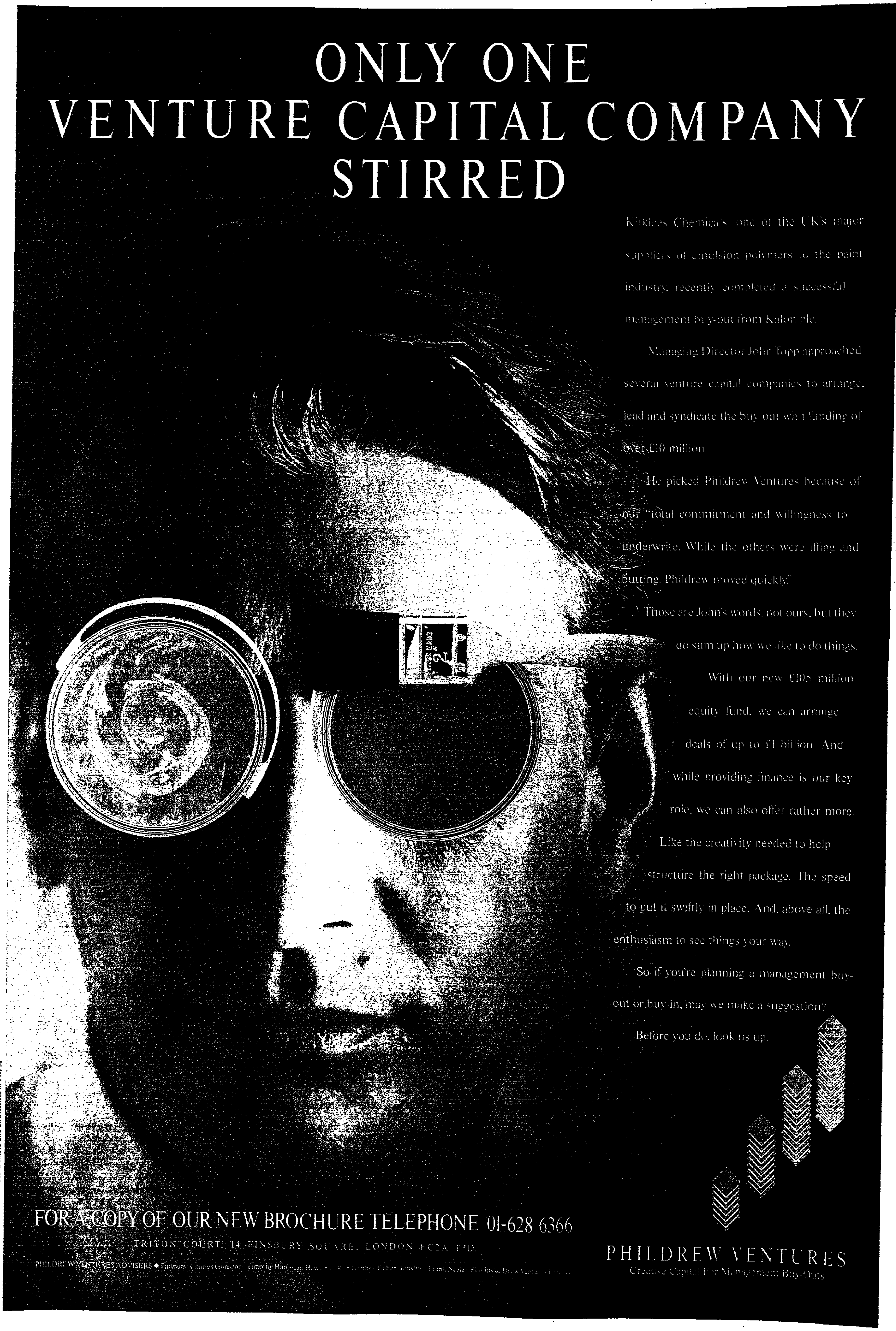
We do not, however, detect signs of diligence in addressing the question of the moving of goods by rail across London – a significant geographic barrier as matters stand at present. Undoubtedly good cross London rail freight links will require very substantial investment.

This chamber supports the Treasury's view that pegging back real levels of Government spending is the only way forward. That leaves the question of how to raise those substantial sums of money to develop such freight links. The only answer can be: from the private sector.

It is time that more urgency was given to unlocking the necessary investment.

Peter Coles-Johnson,
Leeds Chamber of Commerce and Industry,
2 St Alban's Place,
Wade Lane,
Leeds, West Yorkshire.

UK aid disbursements, discussed by Mr David Jones of Oxfam (Letters, November 4), fell not by 2.8 per cent of GDP as mistakenly transcribed, but by 2.8 per cent in sterling terms, 7 per cent in volume, and to 0.28 per cent of GDP (OECD figures).



Phildrew Ventures Advisers is a Member of IMRO and an associate of PDFM

APPOINTMENTS

Grampian TV chairman

■ Mr Douglas F. Hardie is to be chairman of GRAMPIAN TELEVISION from June 1989. He has been a director since 1984, and succeeds Sir Iain Tennant who retires at the annual meeting. Mr Hardie is chairman and managing director of his family textile business of Edward Parker and Co., and chairman of A.G. Scott Textiles, both of Dundee. He has been deputy chairman of the Scottish Development Agency since 1980. His other directorships include the Clydesdale Bank, the Alliance and Second Alliance Trusts, and the Prince's Scottish Youth Business Trust.

■ UNISYS has appointed Mr Jan Poort as vice president industry and commercial line-of-business marketing at its Europe-Africa division, UK. He joins from Digital Equipment Company in Holland where he was country marketing manager.

■ Mr Nigel Young has been appointed marketing director of ADIDAS (UK). Mr Jim Bartlett, operations controller, also joins the board.

■ Mr Jeffrey W. Herbert has been appointed non-executive chairman of ANDERSON STRATHCLYDE, a wholly-owned subsidiary of Charter Consolidated.

■ Mr Gordon Wishart has been appointed managing director of CCG CATERING. A graduate of the Swiss Hotel School, Lausanne, he was chief executive of the Norwich Health Authority. Mr James Walker, business development manager, becomes southern region sales director. Mr Kenneth J, Hay, commercial manager, has been promoted to commercial director of CCG Catering.

■ *PERKINS ENGINES*, part of Varity Corporation, has appointed Mr Barry Parsisson as director and general manager of its international operations. He was director and general manager, defence sales.

■ Mr Malcolm Brown has been promoted to the main board at DENMANS, Bristol, as purchasing director. He was south west regional director. He succeeds Mr George Driscoll who will concentrate on importing and marketing.

■ Mr Alun Price-Davies has been promoted from director of sales and marketing to managing director of BURNYEAT.

■ BIMEC INDUSTRIES, Birmingham, has appointed Mr Peter Young as managing director, and Mr Roger Hunt as financial director of subsidiary Biomechanics Environmental.

■ Mr Robin Kernick has retired as chairman of CORNEY AND BARROW, but remains a director. Mr Malcolm Kimmins succeeds him as chairman, and Mr Adam Brett-Smith is appointed managing director. Ms Gabrielle Shaw (buying) and Mr David Stiff (finance and administration) become directors. Mr Andrew Gordon has been appointed sales manager.

■ THE MI GROUP has appointed Ms June Hicks as director of personnel and sales administration. She was divisional director of R.K. Carvill & Co.

■ Mr Andrew Nairn, managing director, has been promoted to chairman of HODGSON IMPEY FINANCIAL SERVICES. He is succeded by Mr Ian Pratt.

■ MORGAN GRENFELL has appointed Mr Roger Yates as a director of Morgan Grenfell Investment Management. He will be involved in the management of UK pension funds. He was a director of G.T. Management.

■ Mr John Loughray, formerly chief executive of Stakis, and currectly a member of the Scottish Tourist Board, has joined the board of THE PENGUIN HOTEL GROUP as a non-executive director.

■ Mr Malcolm Cox has been appointed a director of THE MIDLAND BAR COMPANY, a subsidiary of Akeler Holdings.

■ Mr Byron Baldwin has been appointed a director of BARCLAYS de ZOETE WEDD FUTURES, with responsibility for sales marketing. He was with J.P. Morgan.

■ CR INDUSTRIES has promoted Mr Chris James to the post of sales and marketing director of its replacement group European division. He joined the company six years ago to take over sales of its range of industrial oil seals.

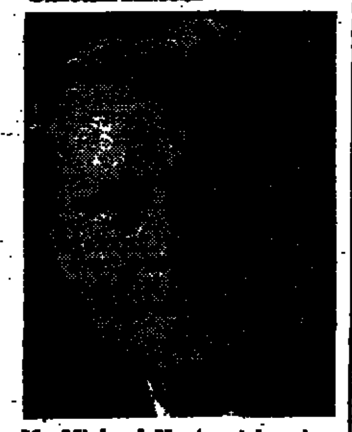
■ STC TELECOMMUNICATIONS has appointed Mr John Elmore as technical director, transmission networks development. He was head of the software technology and advanced information processing division in the Commission of the European Communities, Brussels.

■ Mr Barry J. Price has joined NICHOLSON STEWART-BROWN as a director. Mr Andrew Hartley and Ms Elizabeth Ryan have been promoted to associate directors of the company, which is part of the Nicholson Chamberlain and Colls Lloyd's insurance broking group.

■ RENWICKS GARAGES has appointed Mr John N. Mendelssohn as a non-executive director. He was chairman of the Normand Group of Garages.

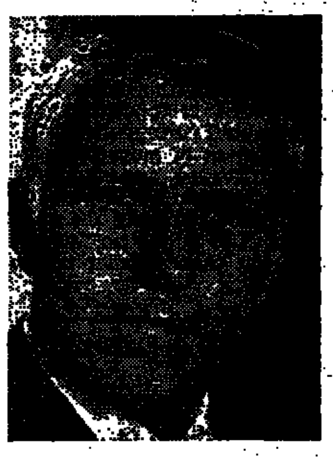
Mr Tony Kendall has been appointed managing director of KEYFIX, a Bowmer & Kirkland Group company.

Barratt Group deputy chairman



Mr Michael Norton,(above) a main board director of BARRATT DEVELOPMENTS since 1983, has been appointed deputy chairman of the group. He was group sales and marketing director, and joined the group in 1978. He founded the group's Bristol-based subsidiary, of which he was managing director, and then became deputy chairman of the Barratt northern group, before joining the main board. He will remain chairman of Barratt Northern, and is based in Newcastle upon Tyne. He takes up his new post on January 1.

Chairman of Eaton



EATON LIMITED, UK subsidiary of Eaton Corporation, Cleveland, Ohio, has appointed Mr John S. Rodewig as chairman on the retirement of Sir Leonard Crossland. Mr Rodewig will continue in his present post as operatons vice president, Eaton Truck Components Europe.

MANAGEMENT

Degree courses

Why Bradford went Dutch

Joel Kibazo explains the background to a novel deal to teach MBA students

Within the next two years, Netherlands-based students who may never have set foot in Britain before will don mortar boards and black gowns and line up before Sir John Harvey Jones, Chancellor of the University of Bradford, to receive their Masters in Business Administration (MBA) degrees at the university.

This will be the climax of a highly unusual situation whereby students enrol and are taught at one institution and graduate at another and is the result of the University of Bradford Management Centre franchising its 14-year-old MBA to an institution created in the Netherlands.

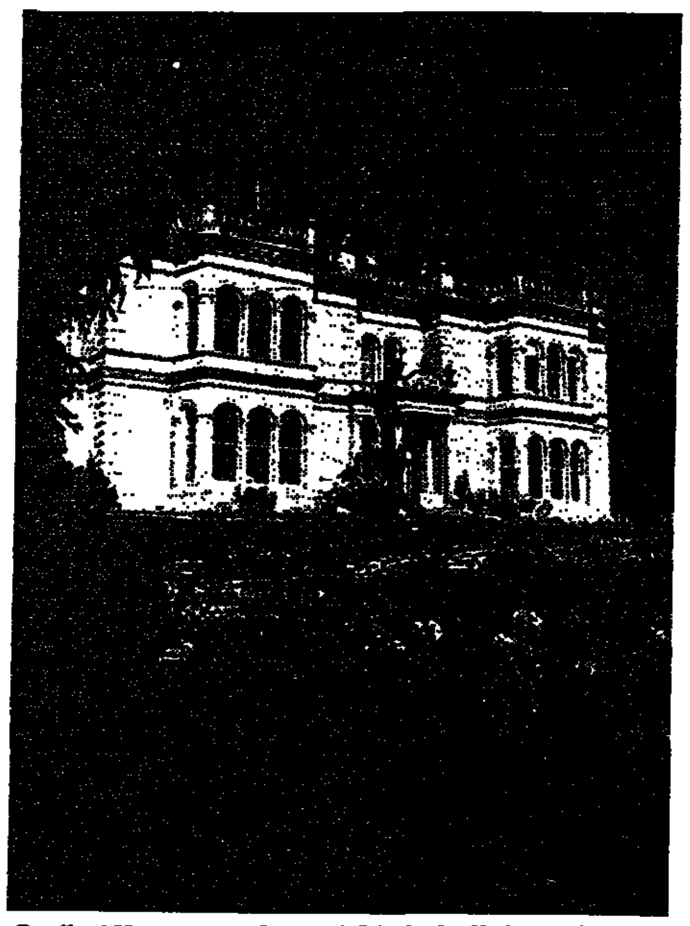
The Netherlands Institute for Masters in Business Administration Studies (NIMBAS) is based in Utrecht, in the south of the Netherlands. It was formed by two Dutch academics. One is Dr Josephine Borchert-Ansinger, currently head of the international business administration course and director of studies in the department of business studies at the Hogeschool Voor Economie en Management (HEAO), the institute for management and business studies in Utrecht (a near equivalent to a British polytechnic). The other is the deputy director of the institute, Dr Henk Schluter. The two are to be the directors of NIMBAS.

Exploiting their contacts with the institute's governing body, the two academics have negotiated a deal for NIMBAS to be based in the same buildings that currently house HEAO and to use the college's extensive facilities. They hope to start recruiting students this December and begin teaching in September 1989.

The HEAO could not franchise nor teach its own MBA. This is because an MBA is a postgraduate course and, under current Dutch law, only universities and private institutions have the right to teach postgraduate courses.

The two academics have great ambitions for the new scheme and are already talking about plans to introduce the Bradford MBA in other NIMBAS establishments which they hope eventually to set up in the Netherlands. They are confident they can attract over 250 full-time and part-time students within the next three to five years.

Given this estimation of the potential market, it is surprising that there has been no home-grown product to meet such a demand. Once again the reason lies in the the present structure of the Netherlands education system.



Bradford Management Centre: MBAs in the Netherlands

Under this, all new courses are submitted to the Education Department for approval before they can be taught in universities or the hogescholen. But that process can take up to three years. NIMBUS saw no need to subject itself to this process when there was a shorter and easier route.

Having identified a market, Borchert-Ansinger and Schluter began the process of looking for the product to fit the market and, of course, a willing seller.

The US, where the MBA originated, was dismissed as a possible source. "Courses in Europe are just as good if not better," maintains Borchert-Ansinger.

They spent over a year looking at several courses run at British universities the degrees from which are accepted throughout the EC, before making the approach to Bradford. Says Borchert-Ansinger: "At Bradford we found the education level very high. But most important in our view was the fact that the Bradford MBA emphasises application of theory to practice. This is something we liked very much."

While the two directors acknowledge that the majority of students are likely to be those continuing with higher education after university or hogescholen, they none the less hope to attract some students who already have business experience. This would greatly add to the value of class discussions.

Under the deal, the Bradford Management Centre will receive 12.5 per cent of the Fls20.000 (£5,500) that NIMBAS will charge each student to register on the course. No money was paid up front by the Dutch to secure the deal.

Unusually, Bradford University is allowing its management centre to keep a large part of the proceeds from the deal to spend on its own plans, which include a new extension to the management centre.

This is perhaps a sign of the way things are moving in the current debate on whether business schools should break away from their parent universities to enable them to make more of the money made through private business deals or consultancy work.

Both Bradford University and its management centre intend to keep stringent control over the deal. Detailed vetting was carried out on the two directors of NIMBAS to establish their academic competence and checks are also to be made on the ability of the staff hired to teach at the institute.

There will be some teaching input from Bradford with lecturers going out to Utrecht for short teaching assignments; but although examination papers will be marked at the institute, the external examiners will be the same as those Bradford uses, who are based in the UK.

Paradoxically, Dr John Sparks, assistant director of the management centre is amazed that the deal should be termed a franchise.

He says: "I would not use that word to describe it. It is going to be a co-operative effort. It will be just as if the syllabus, teaching materials, and teaching methods were exported to the Netherlands. But because it is a University of Bradford degree that is being offered, we will retain total control over the syllabus."

Borchert-Ansinger, however, maintains that sees the arrangement is a franchise but stresses: "We are not a subsidiary of a big university far away. We are an independent foundation working with another institution."

UK water authority privatisation

Re-shaping the corporate system

By Richard Evans

It is a "wonder that water still comes out of the tap given the amount of time the industry has had to devote to privatisation." So says the chairman of one of the 10 water authorities in England and Wales as the tempo increases prior to flotation in a year's time.

The comment sums up the mix of frustration at the time-consuming paper work and endless committees that privatisation involves for senior personnel, and excitement at the flexibility and opportunities that flotation should bring.

Any privatisation entails a shock to the corporate system, but the impact is greater for the water industry than for most. A complete restructuring is now under way because of the Government's insistence that only the core activities of water supply and sewage treatment are to be privatised, leaving the regulatory functions still in the state sector.

The authorities are now in the throes of reorganising themselves so that all employees at present involved in environment and quality control, fisheries, navigation and land drainage are ready to be transferred to the National Rivers Authority, a new quango which will oversee the industry.

Equally important is the long-term process of changing the attitudes of staff, from Board members to rank and file, to ensure that the water services plcs, as they will be known, are ready for the harsher commercial environment that privatisation will bring.

Great progress has been made since 1974 when the authorities were formed from hundreds of local council controlled water supply and sewage services, and welded into organisations based on major river basins and responsible for the complete water cycle.

The initial problem was that the industry inherited local government attitudes, some good in terms of public service, but others bad in terms of overstaffing and a lack of commercial edge.

The introduction of much more stringent Government financial controls from 1983 and the development of stronger management teams which now compare favourably with the best in the private sector, has started to transform the industry.

Manpower has fallen from a peak of 63,000 in 1979 to under 49,000 and it is still falling; the most sophisticated information technology and telemetry has been introduced, and profit has ceased to be a dirty word.

The introduction of privatisation into the equation has speeded up the process, and all 10 authorities are now well advanced in their preparations. They are beginning the process of selling themselves hard as attractive buys for both institutional investors and for customers, so one of the top priorities is to project an image of increasing efficiency and the ability to take advantage of the commercial opportunities that privatisation could bring.

Severn-Trent, the second largest authority in area and population and vying with Thames Water, the biggest, in profitability, is as well advanced as any and has already largely put in place the structure needed for privatisation.

There will be two main strands of management, one covering corporate activities such as strategic and long term planning, relations with the Government, and the image with the customer and shareholder. The other will cover core activities and be responsible for the day to day running of the water and sewage services.

There will be two main strands of management, one covering corporate activities. . .the other core activities

Both executive boards will be headed by Roderick Paul, chief executive, under the overall control of John Bellak, chairman, and the main board.

An enterprise board has been set up separately to look after areas where Severn-Trent might sell services profitably. The authority has, for example, one of the largest and most efficient laboratories in the industry, and there are also prospects in land development, consultancy services and tourism.

The biggest potential disruption is over the transfer of staff from the privatised authority to the NRA, and a rivers and regulatory division has been set up to cover all regulatory functions prior to the formal hand-over on vesting day late next year.

Around 750 staff, or 10 per cent of the authority's total, will be employed in the NRA and of whom 530 will be field based. All senior appointments, including that of Dr Geoff Mance, who will head the Midlands NRA, have been made and the headquarters will be a Solihull, separate but close to the Birmingham headquarters of Severn-Trent.

The decision to set up the shadow unit a full year before vesting day has been taken to ensure a greater period of operational experience, and to give time to determine future budgetary needs. "It should get the bugs out of the system in plenty of time," says John Bellak.

A great deal of trouble has been taken over the last few months to keep all staff fully informed over the changes through briefings, video presentations, newsletters and personal counselling.

"It is inevitably an unsettling period for some and we want to minimise that feeling. Provided we are able to give assurances on things like pension rights and relocation, I don't foresee difficulties," Bellak declares.

The challenge facing Severn-Trent, and the other nine authorities, is to continue to change staff perceptions by the introduction of more commercial attitudes and a profit driven system, while at the same time retaining the commitment to public service and ensuring the customer comes first.

Management abstracts

Liability: whose fault is it anyway? *E. Woolf in Accountancy (UK), July 88 (3 pages).*

Considers an important recent legal hearing where it was decided that the auditors (Touche Ross) did not have a case to answer regarding their liability for a duty of care to the plaintiff (Caparo) as an individual shareholder (in Fidelity), but rather to the shareholders as a class.

The dynamics of account switching. *P. Mitchell in Admap (UK), June 88 (4 pages).*

Analyses the extent to which companies change advertising agencies, finding the relevant variables to be product area, the client's possession of in-house facilities, the size of the agency, and the client's budget; discovers that the bigger the account and the bigger the agency, the greater the likelihood that the client will remain loyal.

Will the ethics of business change? *T.M. Jones and F.H. Gautschi in Journal of Business Ethics (Netherlands), Apr 88 (18 pages).*

Reports the results of a study of MBA students in US business schools to determine their attitudes towards issues of social responsibility and business ethics; concludes, from the responses, that these future executives display considerable sensitivity to ethical issues, independent thinking and judgment, and a low degree of pure loyalty ("my company, right or wrong"). Finds the sensitivity particularly strong among women students.

Audit committee functions. *N.A. Wagner and others in the CPA Journal (US), June 88 (5 pages).*

Discusses the roles which audit committees can play in improving communication with external auditors (and thus better implementation of their recommendations) as well as improving internal control; concentrates on municipalities, banks and not-for-profit hospitals in the US.

These abstracts are condensed from the abstracting journals published by Anbar Management Publications. Licensed copies of the original articles may be obtained at a cost of £4 each (including VAT and p+p; cash with order) from Anbar, PO Box 23, Wembley HA9 8DJ.

ARTS

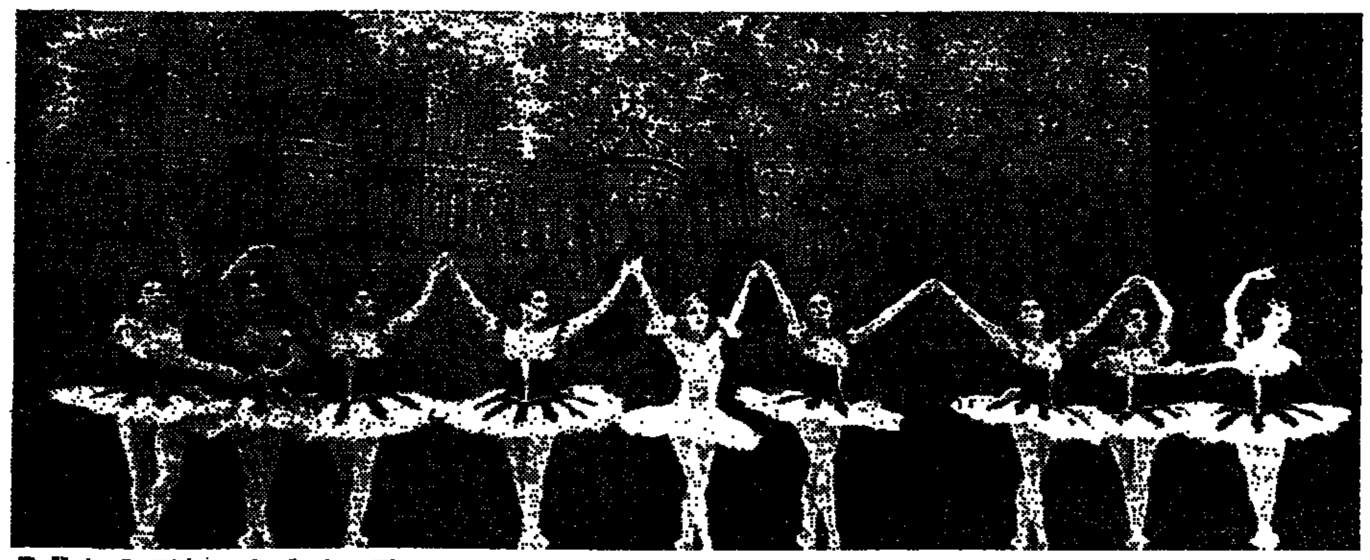
Cannes International Dance Festival

The International Dance Festival in Cannes celebrated its fourth anniversary last week with a series of performances by the Ballets de Monte Carlo, the Gulbenkian Ballet, the Ballet du Nord (with its De Cuevas homage on which I reported from Lyon), and the Alwin Nikolais company. There was also the promise of local modern troupes, video programmes and an entertainment starring those illustrious balletic icons, Rosella Hightower and Jean Babilee. The only problem with the festival is the grimness of the two theatres in the Palais des Festivals: excellent stage-space but no orchestra pit (ballets suffered from arbitrary tempi on the tapes used) and brutal interiors having all the wayward charm of Terminal 1 at Heathrow.

The festival opened with the Ballets de Monte Carlo in two Balanchine works. Newly under the direction of Jean-Yves Esquerre, the company gave well-reasoned and clean-edged accounts of *Stravinsky Violin Concerto* and *Theme and Variations*. In the concerto, the development of the physical drama, the realignments of academic form and formulae, were grippingly done and the two contrasting arias – one aggressive, the other more yielding – were given the proper emotional and dynamic pungency. For *Theme and Variations* Monte Carlo has returned to the style of elaborate decoration which the ballet had in its first incarnation with Ballet Theatre in 1947. A backdrop of an 18th century palace and formal garden, slightly heavy costuming, do not, though, cloud the brightness of choreography or dancing.

An especial pleasure was the presence of Evelyne Desutter in the leading role. With her fragile, elegant physique, she moves with an authority and a delicate clarity, the dance seeming drawn with a fine-bred and magisterial line. Her partner, Frederic Olivieri, brought tremendous panache to the taxing male solos, virtuosity flung glittering into the air.

A lot of bravura, too, in the central section of danced bonbons so necessary in a gala evening such as this. Monique Loudières and Manuel Legris from the Paris Opera were serenely dazzling in a duet from *La Esmeralda* – every step gleaming – though victims of hustled tempi on the tape they used for Balanchine's *Chaikovsky Pas de Deux*. Carla Fracci, partnered attentively by Paul Chalmer, offered an abridgement of *La Sylphide*, moving from the opening pose to the second act duet with many of those small vivacities



Ballets de Monte Carlo in "Theme and Variations"

of flying skirts, bracelets, flowers, necklace and bows, that are an impenetrable carapace round the real fact of the dance. But in the balcony scene from Cranko's *Romeo and Juliet*, in a role she created, Mme Fracci was wholly Juliet, trusting, beautiful, swept by passion in the devoted arms of Chalmer's youthful Romeo. It was exquisite dancing.

On the next evening, the Gulbenkian Ballet looked a stronger and more coherent company than I have previously seen it. Olga Roriz' *Thirteen Gestures* can be performed by either men or women. A set proposes 13 doors through which appear 13 dancers armed with chairs. The men, on this occasion, wear suits, white shirts, and the opening section has much the effect of strobe photography as a movement idea passes along the line of dancers, a sequence of physical states lingering on the chain of bodies as on the eye. It is as cumulatively fascinating as the entry of the Shades in *La Bayadere* and there then begin solos for the men, violent with energy, which explode over the stage and are magnificently done by the Gulbenkian artists. The tone is angry, the effect perhaps static in emotion, but the dance is hard driven and suitably vehement in performance.

So, too, is Vasco Wellenkamp's *Keep Going*, which takes its title from the third movement of Berio's symphony, a ratatouille of orchestral quotations which inspires fast and anxious movement. The cast is caught in shafts of light, bodies threshing like landed fish or fleeing towards disaster, eager as lemmings. Keeping going is a matter of psychic and physical unease and the dance is secure in its directness of feeling, as is the company performance.

About Mr Wellenkamp's *Memoire pour Edith Piaf* I am reluctant to comment. This is Edith Piaf year in the dance world – no less than three ballets have lately been made about the chanteuse – and, since I care not one jot about the life, art, songs and traumas of the lady, I am a less than ideal commentator. To judge by Mr Wellenkamp's version, she was a much put-upon acrobat, given to outbreaks of the screaming mimis.

The ballet has a saccharine score and three Piaf songs, which oblige the Gulbenkian cast to behave as if they were at the funeral of a remote relative. The rest of the programme had shown them to be fine artists.

Clement Crisp

Berio's Piano Concerto

FESTIVAL HALL, RADIO 3

No celebration of Schoenberg would be complete without the presence of Pierre Boulez and a major panel of the South Bank's 'Reluctant Revolutionary' series was a Boulez weekend, in which he conducted the Ensemble Intercontemporain and the Orchestre de Paris. I hope to write of those performances tomorrow. Meanwhile the novelty of the first concert on Saturday evening was not Schoenberg at all but the first British performance of Luciano Berio's Piano Concerto, with Boulez conducting the Paris Orchestra, and Daniel Barenboim as soloist.

Concerto 2, as Berio terms it, was completed earlier this year; it is dedicated to Barenboim who gave the premiere in Paris just over a week ago. It's a substantial, three-section work that plays continuously for just under 25 minutes. A large orchestra is deployed on the platform in two distinct ensembles – the bulk of the wind is ranged to the left of the piano, the lower strings to the right, with the violins stratified at the rear. Such spatial teasing-out of the textures is typical Berio – and so too is the compositional method, for the core of the new concerto turns out to be the piece for piano and chamber orchestra which he wrote in 1974, *Points on a Curve to Find*.

In that work a jagged piano line ricochets across an ever-changing mesh of instrumental lines and the same music, enriched and thickened by the full orchestra, forms the centrepiece of the concerto. As in his previous expansions of existing works, Berio's intention was to open up areas of his material that could not be explored within the confines of the smaller piece. The "points" are ramified into clouds and the toccata-like curve of the piano line gets buried ever deeper within the orchestra. That recomposition is framed by a prelude whose main concerns are harmonic, as the orchestra "traps" chords from the piano, and a slow coda, in which the bulk of the concerto's solo writing is sited.

The final section brought the best from Barenboim and contains the most memorable music, as Berio elides the soloist with a melting series of orchestral solos – shimmering organ chords, celesta flickerings, a romantic cello effusion – until the concerto is finally extinguished in a series of sombre brass chords. The tense opening too creates expectations, but the "Points" music makes a disappointing focus – what was originally one of Berio's most pungent pieces from the 1970s, totally convincing on its own terms, is now over-egged and diffuse and sharply contrasted with the lucid working of the chamber original. Berio's ear for colour is as faultless as ever, but the substance of the new concerto is unevenly spread.

Andrew Clements

The Gut Girls

ALBANY, DEPTFORD

Huge animal carcasses dangle overhead as five blood-spattered women go about their daily work of drawing and quartering, carving and hacking at stomach-churning hunks of meat. They are a jolly bunch, with a bawdy camaraderie that grows from sharing one of the lowliest occupations on offer in late-Victorian Deptford.

Sarah Daniels' fierce and funny new play uses fictional characters to illustrate a revealing chapter of local history: the gut girls of the title worked in the offal sheds of Deptford's foreign cattle market as virtual untouchables, until the Duchess of Albany launched a campaign to make their work illegal, and founded the forerunner of the current Albany Empire as a market girls' working club. Parts of Kate Owen's strikingly authentic abattoir set – complete with underfoot gulleys to take the blood – were salvaged from the cattle market itself, which is only now being demolished.

Daniels' attitude to the do-gooding duchess – here transformed into a zealous aristocratic widow, Lady Helena – is coloured by her perception of Victorian maternalism as a patronising and ultimately disabling alternative to the nascent trade union movement.

Lady Helena's answer to long hours and appalling conditions is to teach the girls to sew and find them jobs in domestic service. The raucous comedy of Polly (Joanna Mays) patching her knickers with pockets, the better to sneak out the evening meal, has a bitter sequel when as a housemaid threatened with violence by her male employer she clouts him and is carted off to Holloway prison.

One would not expect the author of *Neaptide* and *Masterpieces* to spare men their share of blame, and the well-endowed bull corpses loom above snatched scenes of sexual hypocrisy and domestic bullying. But the politics of the piece are by no means separatist: Daniels' perspective has changed significantly with this play to an appreciation of the role class has historically played in inequality.

The butcher's boy, barman and abattoir foreman may be inadequates, but they are drawn with a sympathetic eye to their imprisonment at the lowest economic level.

Daniels is at her best with the characters that catch her sympathy and imagination. Claire Vousden's Lady Helena is BBC posh, with a stilted vocabulary to match her stilted bearing. She is, she informs the tittering workers, quite au fait with the word gut and occasionally has to use the word belly in the course of instructing her cook. The margin between this ironic humour and cliché is narrow and not always comfortable, especially given the complexity of the Victorian charitable impulse.

But with the gut girls themselves, the writing – strongly supported by Teddy Kiendl's direction – is humane and hugely funny, throwing a generous and affectionate arm around women who walked abroad with outrageous hats and no underwear, who counted their free hours in pints of ale and who were quite equal to shaming a second-rate comedian off the stage.

In an ebulliently well-knit cast Joanna Mays is magnificent as the expansive Polly, while Eve Bland unsentimentally charts the pride and fall of the working woman whose work is taken away.

Claire Armitstead

ARCHITECTURE

Books do furnish a room

William Cowper, writing in *The Task* in the 18th-century, did not find it unusual to sing the praises of the humble sofa. Not so humble, in fact: "Thus first necessity invented stools,/ Convenience next suggested elbow-chairs,/ And luxury the accomplish'd sofa last."

Although the poet was singing the song of the sofa, he was in fact writing about much more. He was preoccupied by the sanctity of the home, in the sense that in the midst of the ghastly horrors of the world there was always the house – a place of peace.

I like to think that it is our love of the home that at least partially inspires the explosion of interest in what we now have to call "the world of interiors." And for anyone interested in interiors this is a special time of year, when you can walk along any street at dusk and glance into lighted rooms with curtains still undrawn.

This cosy seasonal sensation can be much enhanced this year by the crop of publications that lavishly tackle the interior. The most serious, and most awaited volume *Twentieth Century Decoration – The Domestic Interior from 1900 to the Present Day* by Stephen Calloway (Weidenfeld & Nicolson, £50.) This marvellous tome belongs on the shelf next to Mario Praz and Peter Thornton, as it brings their historical labours up to date.

Mr Calloway is right to look at decoration as a key area of social and artistic history: attitudes to domestic interiors is what this book is about. Calloway says "in the last few years the level of interest in the decoration of houses has risen to a phenomenal level and the decorator's position has finally been established, not just as the purveyor of chic, but as the arbiter of taste in what has become, in the 20th-century, the only art to be practised universally: the arrangement and adornment of the spaces in which we live."

A chair designed by Sir Edwin Lutyens in 1919, which is now available again as The Napoleon Chair from Lutyens Design Associates

His book puts the whole subject into a serious perspective. I enjoyed the 402 illustrations as well as the text and the sense he gives of the journey between the examples of history and the present. The relationship of visual taste with literature is well identified, though it is the relationship with architecture that is fundamental. Any reader will appreciate seeing the rare illustrations. The hotel room where Aubrey Beardsley died does not quite come up to our expectations of the Fra Angelico of Satanism; but other artists like William Nicholson, Charles Ricketts and William Rothenstein clearly had a profound influence upon the interior. The selection of historical examples is seen through a very English pair of eyes, which gives the book a strong character.

There is a tension throughout between what the author calls the lure of the antique, and the modern movement. The two forces are constantly at war. There are times when the clean cutting edge of the International Modern Style seems more than welcome as a kind of purgative. What interior decoration does is to bring to an "off-the-peg" public some of the ideas of the avant-garde.

Mr Calloway has the knack of making us see areas of design that have been temporarily forgotten. His interest in the neo-Baroque shines through, as does his justified concern for the furniture of that wonderful Italian designer Piero Fornasetti, who died recently.

The last chapter is the most controversial, dealing with "the New Ornamentalism." Here historical conservation and respect for the past is rightly seen as an important influence. This has strengthened the work of many younger designers – particularly the estimable David Mlinaric. Minimalism, the room as Art and the new Georgians are all recorded: some surely are just passing fashions. This book enables us to see interiors through eyes that, because they are better informed, will make better decisions in that awkward area of taste.

★

John Stefanidis is one of the best interior designers working from England today and he has recorded his approach to the interior in a fine book, written by Mary Henderson (*Rooms: Design and Decoration*. Weidenfeld & Nicolson, £30.) I admire the architectural quality of much of his work, and its range, from the interiors of the Bank of England to a Scottish fishing lodge, is impressive. Looking at rooms and their uses, from halls to kitchens, makes this a practical book: I longed for Mr Stefanidis to have included his address book of suppliers and craftsmen for future reference.

★

The World of Interiors – A Decoration Book by Min Hogg and Wendy Harrop (Conran Octopus, £20) is a lively compilation from the magazine that fuelled the interior revolution and continues to exercise its photogenic pressure for quality and variety. This is more than a glossy glance at other people's houses because of the catholic nature of the selection. The range is inspiring, and although this is a magazine in hard covers it has a historical and practical value.

Colin Amery

La traviata

GLYNDEBOURNE TOURING COMPANY

For the final three weeks of its Autumn tour (ending in Norwich this week), Glyndebourne has a new Alfredo in the person of Roberto Alagna, the 25-year-old Sicilian tenor who has recently been one of the winners in the Opera Company of Philadelphia/Luciano Pavarotti competition. The company has, apart from anything else, brought off the remarkable coup of performing *La traviata* with Italian singers in all three principal roles – and it is a long time since audiences here have heard that.

It is easy to see why Mr Alagna is a prizewinner. He uses his voice, which is still on the small side, with discretion, but his well-focused, slightly reedy tone projects easily even in so large an auditorium as the Palace Theatre, Manchester, where I heard him last Thursday. Projection is infinitely more important than mere volume. His voice also gets more interesting the higher it goes, which is not all that common and bodes well for the future; there is a good ring to it up there and, in the final trio when he felt confident enough to let rip, exciting metal as well. He also has a naturally musical way with phrase, and – not surprisingly – sings good, clear Italian.

It would be unkind to comment in detail on his stage performance: this was his first appearance in opera. But I hope Peter Hall never sees the bouffed-up pop-star's wig he was given, which stuck out from the meticulously observed period detail like a thumb ripe for amputation – just as much as I hope he soon falls into the hands of a director of like stature, to learn how to stand, move and convey emotion at a level somewhat higher than that of soap opera. This is a talent that must not be wasted.

For the rest, Fiorella Pediconi remains a Violetta in a thousand – one of the most complete interpretations I have witnessed – and Elia Padovan's Germont, if a trifle unsparing in volume, is as Italian as the best Parma ham. Graeme Jenkins was having an off-night in the pit, racing through the score with reckless disregard for its weight: the second-act *concertato* had all the dramatic power of a Waldteufel waltz. And the hideously unmusical cuts inflicted on the third act since the summer are indefensible: to this extent, though no other, audiences on the tour are being given second best.

Rodney Milnes

SALEROOM

Market back to normal

After the sensational prices paid in New York last week for American contemporary art, culminating in the $17m (£9.4m) bid at Sotheby's on Thursday night for "False Start" by Jasper Johns, easily a record for a living artist or a work of contemporary art, Sotheby's important auction of Impressionists and post-Impressionists the next evening showed a market that had returned to normal.

The 70 lots produced an impressive total of $79.5m but it was 21 per cent unsold and there were few major surprises. On this showing the American post-war school of artists has over-taken the Impressionists as the most expensive painters in the world.

The top price was the $8.5m, at the top end of the forecast, paid by a private collector for a very familiar Renoir pose, of a bather drying her feet – "Baigneuse (femme en jupe rouge s'essuyant les pieds)". A Degas pastel of ballet dancers, "Le baisser du rideau", was slightly disappointing at $7.975m, while another Renoir, of a young couple in a garden, "Le printemps ou la Conversation", was in the middle of its estimate at $4.84m.

There was, however, some Japanese buying and sufficient artist records to keep up confidence. The $3.3m paid by a European collector for "Girls on the jetty", a fairly light-hearted composition much favoured by Edvard Munch, was a record for the Norweigan artist and Henry Moore also achieved a new auction high of just over $2m for a large bronze reclining figure, 93 inches long, one of an edition of nine cast in 1982. There were also records for Dubuffet, $1.43m for "Promeneuse au parapluie" of 1945, and for Magritte, $1.32m for "Chant de la Violette", a grey canvas depicting two men made out of stone.

Obviously the market is getting selective at the very top – Van Gogh's "Le Moissonneur", showing a peasant working, in the style of Millet, was at the bottom end of its forecast at $3.4m, while Mary Cassatt's sweetly decorative "Sara holding her dog" was spot on target at $2.75m. There was better demand in the subsequent sale of less important Impressionist art on Saturday, which was only 12 per cent unsold and with the Japanese buying 15 per cent of the lots, and in the Impressionist drawings and watercolours, which was 8 per cent unsold, with Marc Chagall being much in demand.

Now the spotlight turns to Christie's very important auction of 129 paintings from the Goetz collection in New York tonight, which should top $50m, for paintings by Picasso, Degas and Cezanne, among others.

Antony Thorncroft

Russian art at the Barbican

A major exhibition of Russian art drawn from private Soviet collections will be at the Barbican from April 27 to July 16 next year. *100 Years of Russian Art 1889-1989* will include works rarely seen outside the USSR. It will be selected by David Elliott, director of the Museum of Modern Art, Oxford and sponsored by the Oppenheimer Charitable Trust.

ARTS GUIDE

November 11-17

MUSIC

London

Beethoven Plus is a series of concerts between September 18 and December 10 which seek to set the composer's music in the context of his own time. The work of over 30 of Beethoven's contemporaries will also be featured. Royal Festival Hall, Queen Elizabeth Hall, Purcell Room. (928 3191).
The Bach Choir with The Philharmonia Orchestra conducted by Sir David Willcocks with Sheila Armstrong (soprano, and the Choristers of St Paul's Cathedral. Britten's War Requiem. Royal Festival Hall (Tue) (928 3191).
London Philharmonic Orchestra conducted by Sir George Solti with Vilmos Szabadi (violin). Bartok. Royal Festival Hall (Thurs) (928 3191).

Paris

Itzhak Perlman (violin), with the Orchestre de Paris and Daniel Barenboim (piano). Mozart, Brahms, Beethoven. Salle Pleyel (Mon) (45630796).
Ensemble Orchestral de Paris conducted by Marc Soustrot. Bach, Schubert, Hersant, Mozart. Salle Pleyel (Tue) (45638873).
Orchestre de Paris conducted by Daniel Barenboim, with Itzhak Perlman (violin). Brahms, Stravinsky. Salle Pleyel (Wed) (45630796).
Orchestre Symphonique Pro Arte de Paris, conducted by André Guilbert: Poulenc's Stabat Mater, organ concerto. Saint-Germain-des-Pres Church (Tue) (48529865).

Frankfurt

Milva Concert. Alte Oper (Wed).

Cologne

Württemberg Chamber Orchestra with Maurice Andre (trumpet), conducted by Jörg Faerber. Bach and Phillipp Telemann. Philharmonie (Thurs).

Berlin

Berlin Philharmonic and the Beaux Arts Trio conducted by James Levine. Mendelssohn, Batholdy and Beethoven. Philharmonie (Wed).

Amsterdam

Concertgebouw. Recital Hall: The Melos Quartet. Mozart, Reger (Wed). Abbie de Quant (flute). Jongen, Faure, Ravel (Thur) (718 345).

Rotterdam

Doelen. The Marines Choir under Major G.D. Buitenhuis, with Daniel Wayenberg (piano). Tchaikovsky, Berlioz (Tue, Wed). Recital Hall. Netherlands Philharmonic Chamber Orchestra conducted by Gilbert Varga, with Dezso Ranki (piano). Bloch, Mozart, Schönberg (Mon) (413 2490).

Utrecht

Vredenburg. The Utrecht Conservatory Symphony Orchestra conducted by Kenneth Montgomery, with Maayke Rademakers (cello). Walton, Elgar, Britten, Tchaikovsky (Mon).
Netherlands Philharmonic Orchestra conducted by Gilbert Varga with Dezso Ranki (piano). Bloch, Mozart, Schönberg (Tue).
Concertgebouw Orchestra conducted by Neeme Jarvi, with Jaap van Zweden (violin). Svendsen, Mendelssohn, Mussorgsky/Ravel (Thur) (31 45 44).

Vienna

Ensemble Intercontemporain conducted by Pierre Boulez. Boulez, and Schönberg. Musikverein (Tues).
Gewandhausorchester Leipzig conducted by Kurt Masur. Reger, Brahms, Matthus, Richard Strauss. Konzerthaus (Wed).

Rome

Michele Campanella, piano, playing Scarlatti, Chopin and Schumann. Teatro Olimpico, Piazza Gentile da Fabriano (Wed) (393304).
Leipzig Gewandhaus Orchestra conducted by Pedro Ignacio Calderon, with Joshua Bell (violin). Mozart, Manzoni and Shostakovich. Auditorium in Via Della Conciliazone (Mon, Tues) 6541044.

Milan

Hungarian National Symphony Orchestra conducted by Gianandrea Gavazzeni, with the Budapest Philharmonic Choir. Mendelssohn. Teatro Allascala (Mon, Tues, and Wed) (8091266).

New York

Vienna Chamber Orchestra, conducted by Philippe Entremont. Haydn, Britten, and Mendelssohn. Carnegie Hall (Tue).
State Symphony Orchestra of the USSR, conducted by Yevgeny Svetlanov, with Oleg Kagen (violin). Tchaikovsky, Svetlanov, and Rachmaninov. Carnegie Hall (Thur) (247 7800).
New York Philharmonic conducted by Zubin Mehta, with Joaquin Achucarro (piano). Mozart, Rachmaninov, Beethoven. Avery Fisher Hall, Lincoln Center (Tue).
New York Philharmonic conducted by Leonard Bernstein, with Krystian Zimerman (piano). Bernstein, Ives, and Del Tredici. Avery Fisher Hall, Lincoln Centre (Thur) (799 9595).
Guarneri String Quartet. Barber, Janacek and Schubert. Kaufmann Hall (Tue, Wed) (427 6000).
Waverly Consort directed by Michael Jaffee. The 14th century avant garde. Avery Fisher Hall, Lincoln Center (Thur) (362 1911).
Meridian Arts Ensemble. Brass quintets by Handel, Hindemith, and Ewald. Juilliard Concerts at IBM Atrium (Wed. mat, 12.30, free).

Washington

National Symphony Orchestra conducted by Kazuyoshi Akiyama, Janos Starker (cello). Takemitsu, Bartok, Saint - Saens, Mussorgsky - Ravel. Concert Hall, Kennedy Center (Wed) (254 3776).

Chicago

Susan Landale, organ recital. Bach, Vierne, and Messiaen. Orchestra Hall (Mon) (435 8122).
Chicago Symphony Orchestra, conducted by Neeme Jarvi. Haydn and Lloyd. Orchestra Hall (Thur) (435 8122).

Tokyo

Bayerisches Staatsoper, gala concert conducted by Wolfgang Sawallisch. Wagner. Suntory Hall (Wed) (505 1001).
Philharmonische Streichersolisten. Mozart, Bach, Hindemith, and Schönberg. Casals Hall (Wed) (449 8451).
NHK Symphony Orchestra conducted by David Atherton with Andreas Blau (flute). Britten, Ibert, Rachmaninov. NHK Hall (Wed, Thurs) (465 1780).

FINANCIAL TIMES
BRACKEN HOUSE, CANNON STREET, LONDON EC4 P4BY
Telegrams: Finantimo, London PS4. Telex: 8954871
Telephone: 01-248 8000
Monday November 14 1988

Rules for accounting

ACCOUNTING rule-makers in the UK need more muscle and sharper teeth. Their attempts at accounting standards in recent years have not done justice to the UK's leading role in the profession around the world. When they have led the world on a major accounting issue, such as accounting for the effects of changing prices, many companies have flagrantly refused to accept what are meant to be generally accepted accounting principles.

At the same time, as the financial world has become more competitive, neither the Stock Exchange nor accountants have wanted to rock the boat too much. The result has been a slow deterioration in companies' published financial information.

A committee chaired by Sir Ron Dearing last week put forward suggestions for how things can be improved. His solution: the City should be given the chance to show that it can keep its house in order, rather than handing power straight to the law-makers. It is easy to sympathise with his plea for enlightened self-interest in the financial and business communities, but difficult to see his ideas taking root.

Rules to be law

It is also surprising that his committee's deliberations did not appear to touch on the fact that membership of the European Community will force the UK to put many of its accounting rules into national law. The seventh directive on group accounts will be enacted in the UK next year, putting detailed accounting rules on the statute book in a very un-British way.

The Dearing committee suggests more resources and more independence for the standard setters. Both are desirable and would help to improve the quality of their output – provided that capable regulators can be attracted to work for the new body.

The question of how companies can be made to obey standards is more difficult. The present system has patently not worked. Dearing's recommendation is for something which bears a remarkable similarity to what already exists, give or take some reshuffling of responsibilities.

The forces behind the existing system – the Stock Exchange, auditors, institutional investors and the Department of Trade and Industry – have constantly passed the buck of responsibility between themselves. The buck, according to Sir Ron, should be passed one more time, to a new body modelled on the City's Takeover Panel.

Critical reports

It would challenge companies over lax accounting and publish critical reports if it saw fit. It would have the power to take companies or their auditors to court over a new civil offence of not complying with standards. The onus would then be on the companies to prove that any deviation from accepted practice was justified. The DTI and Stock Exchange would also have the power to challenge accounts in court. But given their lack of interest in the past, it is hard to believe they would make use of this power in future.

The system would rely on the City being prepared to staff the new panel, as well as paying heed to what it had to say. It would also rely on auditors and others monitoring accounts and reporting irregularities – a far cry from the 150 accountants and lawyers doing this job for the Securities and Exchange Commission.

The City has failed in these policing jobs in the past. There must be a question mark over whether it can do better in the future. Would it be any more able, for instance, to enforce a system of inflation accounting? It hardly seems likely: every privatised company that comes to the market happily drops its current cost accounts and the City does not bat an eyelid.

A more radical solution is needed. A statutory body, perhaps the Securities and Investment Board, should take responsibility for enforcement. After all, financial reporting lies at the heart of investor protection. Whoever takes on the job, it seems likely that they will need to wield the clout of law rather than the censure of the City. The fact that many accounting rules will be in law anyway will make their job easier.

Govan sends a message

THE unexpected victory of the Scottish National Party in the Govan by-election last week raises more questions about the governance of Scotland within the United Kingdom than it does about the future of the Labour Party. It was, of course, careless of Labour to lose a constituency that it held with a 19,500 majority. Its candidate was particularly unappealing, and its campaign was complacent.

These technical considerations apart, Labour has good reason to feel concerned about the loss of even one Scottish vote in the House of Commons, since its heartland lies north of the border. Against that, by-election upsets based on a protest vote are a familiar part of British political life. In most cases the lost seat is won back at the subsequent general election.

It would, however, be wrong to write off the Govan result as a mere single-constituency quirk. The protest has wider implications than that. It was directed at Britain's Conservative party during last year's General Election, with the result that the Tories fared particularly badly in Scotland. Feelings about the use of Scotland as a test bed for the new community charge, or poll tax, are running high. The Thatcherite revolution has not taken root in much of Scotland in spite of nine years of effort.

Expectation

It is hardly surprising that there has been an expectation that the 50 Scottish Labour MPs elected last year would strongly represent the regional interest. In the event the Scottish contingent at Westminster has proved unable to influence Scottish legislation, although it has provided some of Labour's brightest stars on the wider political stage. Last week's protest vote against the "feeble 50" thus reflects the frustration of Scottish nationalists in all the opposition parties.

There is now a strong temptation for Labour to re-examine the extent of its commitment to the devolution of power to Edinburgh. It is nearly 10 years since a referendum was held, in the final months of the last Labour Government, on proposals for a Scottish Assembly. A majority voted in favour but the "yes" constituted less than 40 per cent of the total electorate and the scheme was abandoned. Since then the Conservative Government has been strongly unionist. It has ruled Scotland through the traditional mechanism of a secretary of state appointed by London. Scotland has seen the same erosion of local government power that has been evident elsewhere in the United Kingdom, and it has naturally been subjected to economic policies that reflect the Government's ideological conservatism.

In these circumstances, the burgeoning support for some form of Scottish home rule is hardly surprising. The unionist case is at its strongest when support for the party in power in London is spread broadly throughout the kingdom. The purely federalist case is not a serious option, in spite of current fantasies about an independent Scotland within a regionalised European Community.

What is at issue is the degree of local autonomy that would be appropriate now. A leading intellectual on the left of British politics, Prof Bernard Crick, says in a contribution to a new collection of essays on the British constitution that "whatever is done must be sufficient to be acceptable and also capable of evolution." That would probably mean the assembly envisaged in 1979, with revenue-raising powers added to it. "The case for Scottish home rule is obvious and lies in Scottish history, tradition and clearly expressed Scottish opinion – opinion that overwhelmingly favours a subsidiary parliament within the United Kingdom, not separation," writes Prof Crick.

In the short run Britain's Conservative government can sit back and enjoy the spectacle of its opponents at Westminster further dividing themselves. In the longer term, however, it will have to face the question of whether a strongly centralist form of administration really is sustainable.

Stefan Wagstyl reports from Tokyo on the Recruit financial scandal

Those caught up in the scandal, from left to right: Yasuhiro Nakasone, former Prime Minister of Japan; Hiromasa Ezoe of Recruit; Hisashi Shinto, chairman of NTT

'This was nothing more than a business deal'

The Recruit financial scandal which has gripped Japan since the summer is beginning to bite deep into the country's political and business establishment.

What began as a common case of bribery of a town hall official is starting to look like an attempt to buy influence on a grand scale by Mr Hiromasa Ezoe, one of Japan's growing breed of self-made super-rich businessmen. Even the most cynical salaryman, who is well aware that money is the grease of Japanese politics, is starting to suspect that something extraordinary went on at Recruit, Mr Ezoe's master company.

Opposition politicians, who are leading the public investigation, are comparing the case to the Lockheed affair of the mid-1970s – when the US aircraft group was found to have bribed Mr Kakuei Tanaka, then prime minister, to the tune of Y500m (£2.25m).

They are concentrating their inquiry on links between Recruit, a business information group, Nippon Telegraph & Telephone (NTT), the country's largest company, and the administration of Mr Yasuhiro Nakasone, the former Prime Minister.

The probe centres on the sale in 1986 to prominent people on favourable terms of shares worth perhaps Y4bn in Recruit Cosmos, a property affiliate of Recruit. When Recruit Cosmos was floated on the over-the-counter market in October 1986, the shareholders made huge windfall profits.

Mr Nakasone's aides and some of his closest political associates figure prominently among about 140 recipients of Recruit stock. So do three senior executives of NTT – among them the two managing directors responsible for dealing with Recruit plus the secretary to Mr Hisashi Shinto, the chairman.

Investigators are trying to establish if there is a corrupt connection between the distribution of shares and a remarkable series of coincidences in 1986. Japan was then in the middle of a row with the US over its mounting export surplus, and Washington seized on a virtual absence of American supercomputer sales to Japanese public organisations as an example of a Japanese trade barrier. Mr Nakasone was anxious to defuse the argument.

In May, NTT, then wholly publicly-owned, bought a supercomputer from Cray Research, the US manufacturer, in a widely-publicised deal which helped to pacify Washington. Five months later, NTT quietly sold the machine to Recruit.

Recruit bought the computer to use in its new venture – leasing high-speed data communications circuits in bulk from NTT and marketing them to business customers. NTT established similar agreements with other companies, but did not provide them with supercomputers.

Subsequently, Recruit, a newcomer to telecommunications, won 60 per cent of the market. Competitors accused NTT of favouritism. But Mr Haruo Yamaguchi, the NTT president, this week denied that NTT had done Recruit any favours in return for the share deals.

Opposition politicians were less than satisfied with Mr Yamaguchi's answers. They believe more details of NTT's involvement with Recruit will emerge as the public prosecutor's office sifts through a mountain of documents seized from Recruit offices. The prosecutor said last week that the office would examine all aspects of the case.

As well as the NTT connection, investigators are trying to unravel the mysteries of Mr Ezoe's other share deals. Sixteen politicians have been implicated in the affair, counting all those whose secretaries, wives, brothers, sons and other relatives bought shares. Among the 12 from the ruling Liberal Democratic Party (LDP) is Mr Noboru Takeshita, the Prime Minister. Alongside them are two senior officials at the Ministry of Education and the Ministry of Labour. The two ministries are responsible for regulating Recruit's main business – running Japan's largest employment agency and publishing recruitment magazines.

Mr Ezoe has said he would rather die than explain what he was trying to do. But he has left behind some clues. By all accounts Mr Ezoe, 52 years old, is a clever man from a modest background who set out at a young age to become rich. As an undergraduate at Tokyo University in the mid-1950s, he was advertising manager of the student magazine.

After graduating, his first business was an agency handling recruitment advertisements for university papers. Two years later, Recruit, a free magazine for students, was on the streets. It became the core of a group which today employs 6,400 staff in employment agencies, book and magazine publishing and telecommunications.

Like many Japanese businessmen with a reputation for deal-making and a good credit line at the bank, Mr Ezoe boosted his profits with property development. By 1981 he could afford a headquarters building in Ginza, the heart of Tokyo.

Mr Ezoe was acclaimed as the greatest businessman to come out of Tokyo University since the Second World War. He was called "the information magician" for his skill in business publishing. Last year he was named the 31st richest man in Japan, worth Y31bn. Like many rich men before him, in the early 1980s he turned his attention to politics. He became friendly with supporters of Mr Nakasone. As a politician who had reached the top of his party relatively young,

Perhaps Mr Ezoe saw the chance of a lifetime to help his friends and secure their eternal gratitude

Mr Nakasone attracted support from young businessmen, often self-made like Mr Ezoe.

Against this background, Mr Ezoe had to choose the fortunate individuals who would get shares in Recruit Cosmos before it was floated.

The first distribution of 1.25m shares took place in December 1984 to 76 people – including politicians, bureaucrats and businessmen. Not all the names have been made public, but those that have suggest that Mr Ezoe was, to a large extent, rewarding friends for favours done in the past and buying goodwill for the future in time-honoured Japanese style.

Among the recipients was Mr Yoshiro Mori, one-time Minister of Education in Mr Nakasone's Cabinet, a rising star of the Liberal Democratic Party, and a friend of Mr Ezoe. Another was Mr Hideki Komatsu, ex-deputy mayor of Kawasaki, who is now being investigated by the city council for allegedly favouring Recruit in the disposal of council-owned land in 1984. It was the exposure of Mr Komatsu, last seen in Hong Kong, that first brought the Recruit affair to light.

Two more issues of Recruit Cosmos stock followed in 1985. These 15m shares primarily went to financial institutions and to companies run by Mr Ezoe's close friends with the object of raising capital.

But by 1986 life had become very complicated for Mr Ezoe. In business, he was in the midst of delicate negotiations with NTT over the newly-established telecommunications venture. In politics, his contacts with the Government were widening and deepening. He had been appointed to two government advisory commissions.

In the summer of 1986, Japanese politicians were short of money after cleaning out their coffers for the general election, which the LDP won handsomely. Meanwhile, land and share prices were soaring, so the flotation of Recruit Cosmos, due in the autumn, was beginning to look like a certain winner.

Perhaps Mr Ezoe saw the chance of a lifetime to help his friends and secure their eternal gratitude. But he no longer had enough shares left to go round and was banned from issuing more so close to the flotation. So, in a desperate move, Recruit bought back Recruit Cosmos stock from companies and individuals who had previously been sold shares, including at least two Recruit affiliates, exotically named Do Best and Big Way.

Even Mr Takeshita says this recycling operation was "strange, even if not illegal." The opposition parties smell blood. At least 800,000 shares were redistributed. But only about 100,000 have been accounted for. Mr Dan Harada, a political commentator says: "There's a black hole in the Recruit affair."

The key issue was whether any of the beneficiaries carried out a specific action to help Recruit's business interests. At that point, in the Japanese view, gifts become bribes.

There is nothing illegal in Japan about selling shares before a flotation. Indeed stock market rules oblige a company to have at least 300 shareholders before it goes public. So it is common practice for owners to sell stock on favourable terms to family and friends, as well as to customers and suppliers.

But difficulties arise when the buyers are public officials or executives of large companies – they run the risk of being accused of taking bribes.

Politicians stand on uncertain ground – they are permitted to raise funds for political purposes including accepting offers of profitable stock market deals. But they are prohibited from accepting money in return for specific favours in the Diet or in Government.

In the Recruit affair, an unknown number of recipients borrowed money from First Finance, a Recruit affiliate, in order to pay for their stock, which was sold immediately after the flotation. Opposition politicians are particularly suspicious of this arrangement.

The opposition is concentrating its attack on three specific questions.

● The matter of the supercomputer. NTT says its Cray XMP-216 was sold on to Recruit at a fair price of about Y2bn with a 5 per cent commission. Moreover, Recruit was happy enough with the deal to buy another machine, via NTT, in 1987.

Cray says it knew the ultimate customer was Recruit. But the question remains of why the deal was put together in a roundabout way. One suggestion is that NTT was forced by the Nakasone Government to buy a machine which it did not want. It sold the computer to Recruit, sweetening the deal with a tacit guarantee of help in Recruit's new business. However, the evidence in support of this theory is circumstantial.

● The allegation that NTT officials treated Recruit differently from other companies interested in the business of repackaging high-speed digital circuits. Recruit's competitors say the fact that Recruit, a newcomer to telecommunications, got 60 per cent of the market is prima facie evidence of favouritism.

● The question, now under investigation, of whether officials at the labour or education ministries, or their political masters in the Nakasone administration, gave Recruit any help in the way regulations governing employment agencies were drafted or interpreted.

Mr Takeshita is doing his best to ride the storm. Last week he bulldozed through a Diet committee a controversial tax bill which has got caught up in the affair. Speaking last weekend, Mr Takeshita said blandly that further discussion on political ethics was needed to prevent politicians from becoming involved in financial scandals.

But Mr Michio Watanabe, a possible future prime minister whose son admitted buying Recruit Cosmos shares, probably voiced the opinion of many politicians when he said: "This was nothing more than a business deal. What's wrong with it?"

As for Mr Ezoe, he is hiding in a Tokyo hospital, suffering from what he says is a psychosomatic illness.

OBSERVER

All friends in Geneva

■ When intelligence chiefs and generals exchange fraternal greetings something must be going right. Certainly that is how it looked at a remarkable gathering last Friday evening at Geneva's Intercontinental Hotel.

The background was the current round of peace talks on South West Africa now going on in the city. The occasion for the amity was a reception given by the Angolan delegation to mark the country's 13th anniversary of independence.

General Franca Ndalu, Angola's chief of staff, graciously accepted the good wishes of his South African counterpart – and adversary – General Jannie Geldenhuys. Exchanging handshakes were Vladillen Vasev, head of the southern African Department in the Soviet Foreign Ministry, and Dr Neil Barnard, director of South Africa's National Intelligence Service (reputed to be President Botha's most influential adviser).

Also doing the rounds was Neil van Heerden, Director-General of South Africa's Department of Foreign Affairs and one of Pretoria's new breed of subtle and shrewd diplomats. Looking on benignly, as well he might, was the man in charge of the negotiations, Dr Chester Crocker, the US Assistant Secretary of State for African Affairs.

Crocker is attempting to bring off Africa's most remarkable diplomatic feat since Lord Carrington presided over the Rhodesian independence talks in 1979. He may almost have done it. At times when the talks were going badly Crocker was protected in Washington by Vice President Bush and the Secretary of State-desginate, James Baker. So he could still have a top diplomatic career ahead of him, if he does not want to return to academic life.

Crocker used to be Director of African Studies at Georgetown University. At the start of the Reagan administration, he wrote an article in the US magazine, Africa Report, called "Southern Africa – A Policy for the '80s". He was invited to join the State Department to put his policy into effect.

End to voodoo

■ Foreign exchange markets took George Bush's "No new taxes, watch my lips" literally last week and sold the dollar pretty hard. They may be wrong. A view among policy-makers whose job it is to keep the world economy on the rails is that the President-elect will try to move fast to cut the budget deficit.

The word is that America's trading partners appear willing to give Bush the legendary 100 days to produce a convincing answer to the US debt problem. One senior official associated with the Group of Seven is quoting reports that Bush has a loathing of debt as deep and visceral as Margaret Thatcher's dislike of Socialism. Do not forget that it was he who denounced voodoo economics in the first place.

Right start

■ Jasper Johns, who last week in New York achieved a record price for a living artist, did his best work in the late 1950s and early 1960s, which was when he made his name. And it was indeed an early work, False Start, that pulled in $17m at Sotheby's last Thursday. He is thus in a price league with only Van Gogh above him.

For the past 20 years Johns' unquestioned status in America has been that almost of an Old Master. He has filled the niche left by the deaths of Pollock and then of Rothko, and the need, perhaps, for an American hero. Yet in that time his work has grown ever more questionable. At the Venice Biennale last summer he won the Golden Lion for the small retrospective in the American Pavilion of his work since 1974. Critics noted, however, that he had lost his earlier spontaneity and was drawing crudely. Johns is only 58 with perhaps 20 years' work to come. We shall watch his progress with interest.

"It's an application from Govan to join the Community."

Wrong man

■ The full text of Phillip Jenninger's speech to the Bundestag on the 50th anniversary of the pogrom of the Jews last week was printed in Friday's Frankfurter Allgemeine and is no doubt widely available elsewhere. One cannot comment on the tone in which it was delivered. Yet as a written text it is one of the best attempts I have come across to describe what happened in the 1930s and before. The majority of Germans did acquiesce in Nazism and persecution. Jenninger admits that and tries to explain in the context of the times how it happened. At no stage does he condone it; indeed the text is full of condemnations. It is a great pity that he was obliged to resign as Speaker as a result. It seems to me that he was penalised for speaking the truth rather than the contrary.

Hard on goats

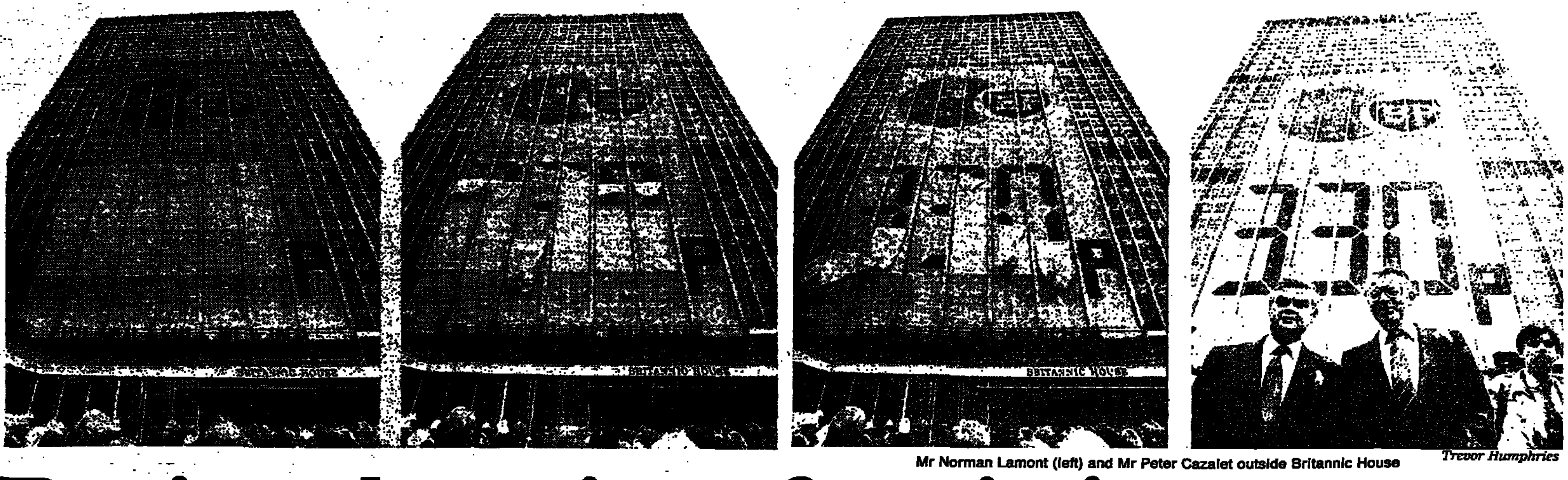
■ When Robert Graves was in the Royal Welch Fusiliers in the first world war, a charge was brought against the regimental goat-major under which it was alleged that "he, at Wrexham, did prostitute the Royal Goat, being the gift of His Majesty, the Colonel-in-Chief, from his Royal Herd at Windsor by offering its stud-services for a fee" to a local goat-breeder. The goat-major pleaded that he had done this out of consideration for the goat, to which he was much attached, and the charge was reduced from lese majesty to disrespect for an officer. But the major was still reduced to the ranks and taken away from goats. The incident was recalled at the Imperial War Museum on Friday at a reading of Graves's Poems about War, which have now been put together by his geologist son, William. The Fusiliers were there and still have a goat called Billy as a mascot. It travels in a special military vehicle, but was not allowed into lunch.

Many loves

■ Sign over a display of "To my one true love" cards on a stall in Lambeth: "30p each. £3 a dozen."

BP AND THE MARKET CRASH

David Lascelles begins the story of the world's largest share sale and how it went wrong



Mr Norman Lamont (left) and Mr Peter Cazalet outside Britannic House *Trevor Humphries*

Paying the price of optimism

As the great stock market crash of 1987 recedes into history, its significance seems to be waning too. But the bruises suffered by its many victims remain dark and deep. By far the most prominent of them is the British Petroleum Company, the world's third largest oil concern, whose £7.2bn share issue was engulfed by the disaster — with continuing repercussions in the political and business spheres.

That the largest share sale the world had ever seen should have run slap into the worst market crash in history is an accident of timing so amazing that even today it is hard to imagine it happened outside the pages of a financial thriller. Some say that the coincidence is so great that it contains no lessons for the future. Others argue that it is a rich field for analysis, not least because of what happens when the interests of business, finance and politics clash — as they did with such force over BP. The ironic outcome — that a good part of the shares ended up in the hands of the Kuwait Investment Office — is a lesson in itself. What follows is an attempt to recreate those dizzying days a year ago when, as one of the participants put it, "whatever the plural of abyss is, we had them all round us."

It is not a story that unfolds easily. The BP issue was nothing short of a nightmare for all those involved: for the UK Government which was trying to sell its shares in the company, for the underwriters in the City and abroad who faced enormous losses, and not least for BP itself whose relations with both the City and Government were sorely strained. Even now, the Treasury, which was responsible for the sale, declines to discuss it. BP, too, prefers silence on the subject. And the underwriters are wary of talking about it, for fear of damaging their relations with both the Treasury and BP. The fact that they had to sign the Official Secrets Act as a condition of participation in the deal has also ensured that much information has been consigned to oblivion.

The story begins on March 18 1987 when the Government announced that it intended to sell off its remaining stake in BP sometime during the 1987-88 financial year. The news had long been awaited. Through a couple of earlier sales, in 1979 and 1983, the Tories had reduced the state's interest in BP from over 50 per cent to 31.5 per cent, and had made clear their intention to pull out altogether as part of their well-known policy of rolling back state ownership.

But what should have been a straightforward sale was complicated by the news later that month that BP had launched a $7.4bn bid for the publicly held minority interest in Sohio, its US affiliate. To finance this deal, BP needed a rights issue. So it was agreed that the Government would buy BP's new shares, package them with the shares it already owned, and sell the whole lot on in one enormous bundle. It was a bold idea — but those were heady times. The stock markets were hitting new highs almost daily, and BP shares were performing particularly well.

The sight of this huge piece of prestigious business set mouths watering in the City, where merchant bankers fell over themselves for the right to handle it, although privatisation work is notoriously badly paid and brings little except a brief moment of glory. One merchant bank is even believed to have told the Treasury that it was prepared to manage it for no fee at all. Indeed, the eagerness of the merchant banks to be involved with BP in some way is central to the whole saga.

As is customary, the Treasury held a "beauty parade" to choose the lead underwriter. After interviewing all the aspirants, it settled on N.M. Rothschild & Sons, one of the City's best-known and oldest merchant banks. Rothschild is an unusual creature. It is almost the last of the privately-owned accepting houses which once dominated the City, and it trades heavily on this mystique. The link with a bygone era is reinforced by its fifth generation chairman and chief executive, Evelyn de Rothschild, who runs it with a deep sense of dynastic importance.

But the key figure so far as BP was concerned was Michael Richardson, Rothschild's head of corporate finance. A man who whirrs with energy and bustle, he had transformed Rothschild's rather lacklustre deal-making department into one of the City's brightest and best since he joined in 1981 — which is all the more remarkable since he is well into his 60s. The BP episode was to bring out the best of Richardson — his ability to galvanise and manipulate people, and pull rabbits out of hats at just the right moment. But despite his great abilities, he is a man who wins only grudging admiration in the City. Many treat him with reserve, and suspect he owes more than he should to good fortune and good presentation.

Rothschild got the BP deal for a number of reasons. Aside from the fact that Richardson had cultivated the Treasury for years, Rothschild had experience in both privatisation work and oil and gas. It has a department specialising in energy and had handled the British Gas sale, the largest to date.

But what weighed particularly strongly in the Treasury's choice was Richardson's pledge that he could drive down the cost of underwriting the deal. The Treasury had come under fire from MPs for paying the City large sums to underwrite government issues which were so safe that they could be sold directly to investors. Richardson's idea was that instead of paying underwriters a standard fee, there should be an auction at which they would be told the price of the stock, and then invited to compete for it by bidding down their fees. He had used it with British Gas, and it had worked.

Richardson also came up with plans to distribute the shares widely abroad. Although the Government saw the BP sale as part of its campaign to widen share ownership in the UK, it recognised BP's wish to have a larger foreign shareholding to reflect its worldwide business. With Rothschild's advice, the Treasury appointed four sets of foreign underwriters in the US, Canada, Japan and Europe. The job of these foreign salesmen was to place the shares in "firm hands" and ensure that they were not immediately sold back into the UK market for a quick profit, as had happened with the British Telecom sale.

By late August, the details of the sale were in place. Just over 2bn shares (including the Government's stake of 1.7bn) would be sold under elaborate arrangements which guaranteed private investors at least half the shares at a fixed price, with the rest going to UK and foreign institutions at auction. Though one can now see that the announcement of these plans coincided exactly with the peak of the stock market, at the time no one had the slightest doubt that the sale would be a roaring success: the advertising drive started, the draft prospectus was published, and millions of people registered for information about the shares.

The only ripple on the otherwise calm surface was a rumour which flashed through the markets at the end of September that Kuwait planned to sabotage the sale by pushing down the oil price in order to embarrass Mrs Thatcher. This was picked up by Hoare Govett, one of the three stockbrokers who were helping to drum up institutional support. But since it was not clear who had said this (though it was attributed to the Kuwaiti oil minister) nor how Kuwait could actually carry out the attack, it was not taken seriously.

The price at which the shares were to be offered was due to be agreed between the underwriters and the Treasury on October 14. In the fortnight leading up to this, all was not entirely well in the securities industry. Stock prices in the major markets slipped from their August highs, and trading activity was down quite sharply. Two days before the pricing, Salomon Brothers, one of Wall Street's biggest houses (and a member of the US underwriting team for BP) announced large cuts in its worldwide staffing and operations. This added a tinge of caution to the City's expectations, and analysts shaded down their BP price forecasts.

Even so, Richardson set off for his meeting with Nigel Lawson, the Chancellor, on the 14th in a positive mood. Wall Street had closed the previous evening up 36 points, and though shares were easier on the London market that morning, it was nothing remarkable. The Treasury had made its own soundings, and had received input from the foreign underwriters. Its aim, naturally enough, was to get the highest possible price in order to maximise its revenues. But Rothschild was in an awkward position. Officially, it was adviser to the Government, which meant it should support the Treasury's aim. But at the same time, it was the leader of an underwriting group whose main interest was in setting a price which was low enough to attract investors. So there was some give and take in the meeting before Richardson and Lawson settled on 330p, comfortably below BP's close the previous evening of 362p.

Richardson returned to Rothschild's quarters in St Swithin's Lane in the City where a meeting of the underwriters had been summoned for the afternoon.

The underwriters' job is to agree to buy any shares for which the issuer cannot find investors; in effect they guarantee that the issue will be sold. It is then up to the brokers to the issue to find sub-underwriters who will actually buy the shares, usually insurance companies, pension funds and big financial institutions.

The underwriters take virtually no risk, particularly with popular government issues, which is why Rothschild had introduced the auction to drive down the underwriting costs. But in order to make the work worthwhile, Rothschild had also wrung a concession from the Treasury: that the underwriters could take a portion of their shares (up to 5 per cent) on to their own books, in other words, to act as sub-underwriters as well, and earn much larger fees. As chief underwriter, Rothschild was allowed a bigger portion: up to 10 per cent. The same went for S.G. Warburg which was advising BP.

Richardson had invited all the UK's largest clearing and merchant banks to the meeting and 16 turned up: Warburg, Barclays de Zoete Wedd, Barings, British Linen Bank (part of the Bank of Scotland), Charterhouse (part of the Royal Bank of Scotland), County NatWest, Robert Fleming, Hambros, Hill Samuel, Kleinwort Benson, Lloyds Merchant Bank, Samuel Montagu, Morgan Grenfell, Schroders, Standard Chartered and the TSB.

Since the markets were not to learn the issue price until the next day, the underwriters were sworn to secrecy as they entered Rothschild. They were then led off to separate rooms to make their bids in private. These were fed into a computer, and half an hour later the results were ready: the average commission bid was 0.018 per cent. This was so little as to be virtually meaningless. It meant that the underwriters were willing to be paid a mere £180 for each £1m of shares they took. The standard fee is 0.5 per cent, or £5,000 per £1m. But most of them hoped to cover the difference by making full use of the sub-underwriting portion they were entitled to: this carried a 1 per cent fee, or £10,000 per £1m.

Then began the tedious business of signing the documents in Rothschild's boardroom in an awkward, long, narrow room with barely any space for people to move around the table. The place was crowded with bankers, lawyers and government officials; there were stacks of papers to deal with, and even some final drafting of the underwriting agreement. This document, drawn up by the Government's solicitors, Slaughter & May, was the underwriters' contract. As well as laying down their obligations, it gave them one right: to ask the Chancellor to cancel the issue if *force majeure* prevailed. In fact, it was a flimsy right. All they could do was ask, and the Chancellor, after consulting the Bank of England, could still say no. But the likelihood of a disaster was so remote that no one thought twice about it. One Japanese underwriter who was uneasy about the terms confessed that he felt unable to complain for fear of sounding pessimistic.

The signing meeting lasted long into the night. But its main purpose — guaranteeing that the shares would be sold — had been accomplished without trouble. "Effortless" was how Richardson described it. One reason was that most of the underwriters thought the issue had been pitched a bit on the cheap side: the Government could probably have squeezed another 5p or 10p out of the market if it had tried.

But secluded as they were at Rothschild, the underwriters were cut off from minute-to-minute news. What they did not know as they made their bids was that Wall Street's nerve had begun to crack. A poor set of US trade figures set off an avalanche of selling in late morning New York time — about 5pm in London — and when the US markets closed the Dow Jones had plummeted a record 95 points. Had it happened a day earlier, this dramatic fall would have seriously affected the pricing of BP; it might even have forced a delay in the underwriting. But those at the meeting recall very little sense of unease.

The following morning, Mr Norman Lamont, the Financial Secretary to the Treasury (as it happens a former Rothschild man), announced the BP price to the world, and the deal was quickly sub-underwritten by 400 institutions. Compared to that day's BP price of 347p, the new shares stood at a discount of 17p, and offered many other benefits, such as delayed payment but a full dividend, and bonus shares for long-term holders. All this outweighed the news from the markets, which continued to be bad. In response to the previous day's fall on Wall Street, London shares went into retreat and knocked 21 points off the FTSE Index.

That night, Mother Nature did her best to provide a suitably Wagnerian setting for the cataclysm that lay ahead. A freak hurricane devastated much of the south-east of England, and resulted in massive disruption to the workings of the City. Few people managed to get to work on Friday, and the Stock Exchange remained officially closed, so even if some response from the BP front was called for, it was virtually impossible to organise. Those who got their Financial Times were informed by the Lex column that "much can happen, of course, between now and first dealings on October 30, but it would take a fall of over 10 per cent in the fully paid — from 350p to 310p — to wipe out the premium entirely." Lex was on the right track.

Richardson had managed to get to the office and had begun to feel anxious about the markets. Although the Stock Exchange had not opened its doors, there was still some informal dealing going on among market makers, including Smith New Court, the jobbing firm in which Rothschild holds a one third stake, and of which Richardson is a board director. That morning, Smith did some urgent rearranging of its book, and managed to transform a bullish position into one which was generally bearish. Meanwhile in New York things were deteriorating fast.

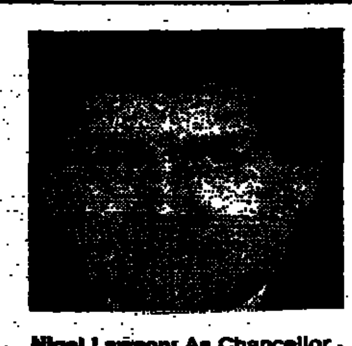
The telephone lines buzzed all over the weekend: underwriters, BP, the Treasury were all trying to make sense of events, and it was with anxious anticipation that they entered their offices on Monday October 19. The first thing that happened was that Lex's worst prediction came true: BP's existing shares fell 33p to 317p, well below the underwriting price. Richardson got into a huddle with his colleagues, and over at the Treasury Lamont closeted himself with other ministers and advisers, and declined to make any public response to the clamour in the market-place. Although terminating the issue was debated, there was no question of taking such a drastic step at this stage. But the truly bad news did not reach London until after office hours that night: the Dow Jones index had closed with a loss of 508 points.

David Lascelles continues the BP story on Wednesday

LETTERS to the Editor — P23

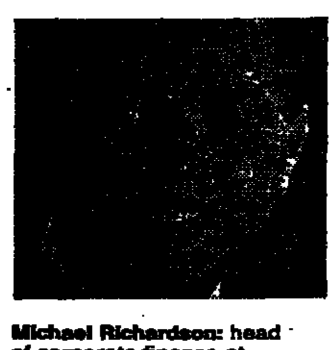
BP THE PROTAGONISTS

Margaret Thatcher: The state owned more than 50 per cent of BP when the Tories came to power in 1979. Through a series of sales Mrs Thatcher's Government had reduced it to 31.5 per cent. It was the sale of this last slice that ran into the 1987 stock market crash, but Mrs Thatcher believed it should go ahead none the less.



Nigel Lawson: As Chancellor he had overall responsibility for the sale. Following criticism of his handling of earlier sales, particularly over large fees paid to the City, he was determined to maximise returns from the BP stake. This weighed heavily in his deliberations on whether or not to pull the issue after the crash.

Evelyn de Rothschild: His merchant bank, N.M. Rothschild, won the mandate to manage the sale. Though relatively small and privately-owned, it was experienced in the energy business and Government privatisations. It also presented the Treasury with ideas to keep down costs and widen BP's shareholder base.



Michael Richardson: head of corporate finance at Rothschild, and the man with direct responsibility for advising the Government and handling the underwriting. A well-known but controversial City figure, he had to deploy his diplomatic and organising talents to the full to ease the conflict in this dual role.

FINANCIAL TIMES
Monday November 14 1988

Janet Bush on Wall Street

Euphoria overtaken by gloom

THE ELECTION of a new US president inevitably brings with it a sense of uncertainty about the future, but there are some notable threads of continuity as Mr George Bush gears up to take his position in the Oval Office which should bolster confidence.

One reassuring feature was the startling rise to prominence of a former actor as the most famous former actor of them all went into retirement. Ben Jones used to play a hot rod motor mechanic in the television series Dukes of Hazzard but was elected to the House of Representatives last week after defeating Georgia Republican Pat Swindall, who currently faces perjury charges.

Mr Swindall was not the only incumbent who entered the race for re-election under a cloud. The most notable defeat last week was that of Representative Fernand St Germain, the often controversial chairman of the House Banking Committee, who fell out of favour with the electorate in Rhode Island after it became known that he was being investigated by an ethics committee for his relationship with lobbyists.

Mr St Germain's defeat means there will be new chairmen of both the House and Senate Banking Committees, central to any prospect of banking deregulation and the repeal of the Glass-Steagall Act during the next Congress. Senator William Proxmire, chairman of the Senate Banking Committee, has retired after 32 years in Congress.

The comings and goings of the extraordinary characters who people the American political scene gave the election a much needed dose of entertainment. Rarely can gloom have descended so fast after the euphoria of a election victory.

As President-elect George Bush heads off to Florida for a well-earned rest, the dollar slumped to within a whisker of its post-war low against the yen, the equity market fell to its lowest level since early September and, if it had not been for the Veterans Day holiday for the Treasury market, the yield on the long bond would no doubt have consolidated above the 9 per cent hit in overseas markets.

All this is hardly auspicious for Mr Bush as he contemplates the next four years.

No sooner had it become clear that he had won the election than the emphasis turned to the problems ahead. Senator Bob Dole, beaten by the Vice President in the fight for the Republican nomination, predicted, with more than his usual grimness, a tough time for Mr Bush, in handling an even more emphatically Democratic Congress.

The prospect of Senator Lloyd Bentsen returning to his old job as chairman of the Senate Finance Committee, armed with a greatly enhanced reputation and a score to settle with the new President, was highlighted in the US press.

The fall of around 70 points in the Dow Jones Industrial Average last week and the rise in bond yields to above 9 per cent reflected all these fears and return to economic reality.

Throughout this year, the Group of Seven leading industrial nations has been acting as an ad hoc campaign team to get George Bush re-elected. The non-US G7 members have, to an extent, submerged their own domestic policy priorities in aid of maintaining rigid control on the currency markets.

Despite some good fundamental reasons for selling dollars, such as the painfully slow progress on the trade deficit, the foreign exchange market desisted because traders knew they would lose money trying to combat the central banks. That has all changed. The long-awaited test of the dollar has started.

After a year of virtual official silence on the dollar, last week saw a return to the good old days of managing the currency through statements flashed across news wires. At the beginning of the week, Mr Martin Feldstein, chairman of the Bureau of Economic Research, talked about a 10 per cent to 20 per cent devaluation over the next three years. Last Friday, Mr William Verity, US Commerce Secretary, said that the current level of the dollar was good for the G7.

When officials start opining on where the dollar should be, you know that foreign exchange turbulence is in store.

What else is on the horizon? Will Mr Howard Baker, former White House chief of staff become chairman of Drexel Burnham Lambert and steer the firm through its securities fraud violation case? And will President Ronald Reagan go back to doing TV commercials?

Bhutto calls for fairness in election

By Christina Lamb and David Housego in Lahore

Supporters of the Mohajir Qaumi Movement take part in an election rally of several hundred cars in Karachi on Saturday

BENAZIR BHUTTO rode in triumph into Lahore yesterday at the end of her election campaign, demonstrating that her Pakistan Peoples Party remains the only mass movement in the country's politics.

But in an interview Ms Bhutto said that, although she expected to win in Wednesday's general election she might not get an absolute majority of seats in the National Assembly. She laid much of the blame for this on the President's insistence that voters must show identity cards at the polling booths – a decision sustained in practice by a ruling of the Supreme Court on Saturday.

Ms Bhutto said: "If there is a modicum of fairness there would be an outright majority of the PPP." But she complained that the Government had taken away the sword as the symbol of the PPP and that the party had also been dealt a further blow by the ruling on identity cards.

She claimed that in rural areas 70 per cent of the people did not have identity cards and most of these were PPP supporters. "Everything has been done to tell us we cannot win and we might as well boycott the election as well," she added.

Supporters in their hundreds of thousands waved flags, chanted slogans and held their hands high in sign of victory as Ms Bhutto's cavalcade edged forward into the city that is the political heart of the country. When the crowds cheered "Benazir Prime Minister," she shouted back "We will govern."

Anticipating the massive crowd that the PPP was likely to draw in Lahore, the Conservative Muslim League Alliance, postponed their final rally, also planned in Lahore yesterday. The Government has extended the campaign for a further day to allow the Alliance to hold its final rally in Lahore today.

Mr Nawaz Sharif, the Alliance leader, blamed the postponement on the "politics of violence and confrontation" being pursued by the PPP.

Ms Bhutto said the PPP had deliberately kept its campaign low key adding: "If Nawaz Sharif and the other (Alliance) leaders saw us getting a landslide, they are such gangsters that they would go to any lengths to stop us. We are backing on our own support being so big that their dirty tricks will not be enough."

Transferring to a truck as she crossed the Ravi River into the city, she was visibly overjoyed at the size of the crowds, which easily matched those her father had been able to draw in his early days as Prime Minister.

Ms Bhutto warned "If the people are cheated of victory the grass roots anger will be uncontrollable."

If the PPP fails to win an absolute majority of seats in the National Assembly, the President has the prerogative to choose a prime minister from among the other parties. He would almost certainly exercise this in the present circumstances.

Carrying the green, red and black flags of the Peoples Party and paper headbands bearing the arrow that is the party's new election symbol, crowds waited for hours beside the roads to see Ms Bhutto. Fireworks greeted her arrival in Lahore from her final trip in the Punjab.

Pakistan's politicians hedge bets, Page 5

Mitsubishi plans European expansion

By Guy de Jonquières, International Business Editor, in London

MITSUBISHI Corporation, Japan's largest trading house, is considering about 100 projects for investment in Europe, mostly in manufacturing and distribution, as part of a plan to diversify worldwide.

Mr Toshihiro Koizumi, the company's general manager of marketing and co-ordination, said in an interview in Tokyo that Mitsubishi had drawn up an "action programme" for expansion in Europe and was ready to back it with substantial financing.

"Management resources are the limiting factor, not money," he said. "As far as money is concerned, we can raise any amount. That would not restrict our investments in Europe."

The company's plans, which coincide with a restructuring of its existing operations in Europe, are due partly to fear that the European Community would erect new barriers to Japanese exports.

"If Mitsubishi doesn't go into Europe now, it will face restrictions on outsiders," Mr Koizumi said. The company had revenues of Y13,365bn ($107.8bn) in the year to March 31 and its cash and short-term investments total Y1,704 bn. Sales in Europe are about $10bn.

Recently, several Japanese car manufacturers have said they are re-examining plans to set up assembly plants in the EC because of uncertainties about conditions in its planned single market. The companies include Mitsubishi Motors, in which Mitsubishi Corporation has a 10 per cent interest.

Mr Koizumi said his company was urging Mitsubishi Motors to invest in a European assembly plant because it feared EC curbs on Japanese car imports. However, Mitsubishi Motors' management was preoccupied with production ventures in the US and Asia.

Mr Koizumi said Mitsubishi Corporation was prepared to invest in acquisitions, start-up companies and joint ventures in Europe. It was particularly interested in light manufacturing businesses, including automotive components, precision moulding and general-purpose parts, such as small electric motors.

Mitsubishi Corporation was also considering projects in transport and distribution. It was discussing plans to link with Federal Express, the US freight forwarding company, and to buy warehouses in Europe.

It would participate in projects through a newly formed investment company, which would be owned by its eight subsidiaries in Europe. The investment company would provide 70 per cent of the initial funding for a project, with a subsidiary investing the rest.

If the projects succeeded, the investment company would sell its stake to its subsidiary at a commercial price. If the ventures failed, they would be written off.

Mitsubishi Corporation already has one joint venture in the UK, Dia Plastics, which was set up last year. The company, which makes moulded plastic television cabinets, is owned 70 per cent by Mitsubishi Corporation and 30 per cent by Mitsubishi Plastics.

The investment company will be run by Mitsubishi Europe, a management service unit which is to be given expanded authority over the group's European businesses. In future, the unit will control all Mitsubishi's operations in Europe, which previously reported individually to the group's headquarters in Tokyo.

Mr Koizumi said Mitsubishi Corporation had decided to invest in new businesses because its traditional finance and marketing activities were declining. Japanese exporters which had previously relied on it to provide such services were increasingly performing them themselves.

Strike wave threatens to cripple Brazil

By Ivo Dawnay in Rio de Janeiro

BRAZILIAN road transport, from lorries and buses to passenger cars, will grind to a halt within 15 days if a pay strike by an estimated 42,000 workers at the state-owned oil company, Petrobras, is not resolved rapidly.

The stoppage, which began on Thursday, has hit all but two of the company's refineries and represents the most serious challenge yet to the Government.

Last week, Brazil's industrial relations climate worsened dramatically after army units killed three workers and injured about 40 others when evicting striking steelworkers from the Volta Redonda mill in Rio de Janeiro state.

Elsewhere in the state – Brazil's worst hit – hospitals and schools have been closed for weeks, as supplies of electricity, domestic gas and water have been hit in a series of public sector disputes.

As voters go to the polls to elect 4,400 municipal governments tomorrow, the administration of President Jose Sarney has been warned that supplies of diesel, the main fuel for bus and truck transport, could be exhausted within days.

Stocks of petrol and sugar-alcohol fuels, used in cars, will last, at best, 15 days, and probably less.

At the weekend, Mr Joao Batista de Abreu, Planning Minister, appeared on nationwide television to appeal to the oil company's employees. "Petrobras was born of patriotism and the struggles of our people; its employees do not have the right to threaten those same people by cutting off their gas, petrol and alcohol," he said.

In fact, the Petrobras workforce are convinced that provisions in the recently enacted constitution extend the right to take industrial action to essential public sector services.

The strike was ordered by senior union officials last week after a long-awaited Supreme Labour Court judgment offered salary rises of just under 70 per cent, substantially below the figure sought by workers.

The dispute poses a serious dilemma for the Government, already on the defensive following the deaths at Volta Redonda. Wage restraint is a central plank in the tripartite "social pact," recently negotiated with employers and unions in a bid to reduce inflation, now more than 27 per cent a month.

It is also viewed by the economics ministries as an essential element in the continuing struggle to reduce public sector expenditure, almost universally regarded as the chief cause of inflation.

But with strong support for the stoppage by both white and blue collar workers, there seems little alternative to a settlement.

Venezuela's oil revenues to fall, Page 3

Soviet economic plan to seal reforms

Continued from Page 1

zontal level, as he put it – the market would prevail, with enterprises able to conclude contracts with each other free of state orders and detailed instructions.

Dr Abalkin admitted to the huge problems facing the economic reformers in getting their ideas put into action. "For 60 years we have lived with one model of the five-year plan," he said. "Now we have to draft a completely new plan with the same people. We have a programme to train a new generation of economists, but it will take another seven or eight years."

He believed an opportunity had been lost to scrap the present plan and replace it with a much more radical set of guidelines. He said the best that could be hoped for over the two years until the 13th plan begins was "stabilisation," and measures taken to cut the state budget deficit, now officially estimated at almost R535bn ($21bn), or 4 per cent of national income (but probably much larger).

Asked for a model of what he had in mind, Dr Abalkin pointed to Sweden, which he has visited on two recent occasions and with which he finds the Soviet Union has a lot in common. He said: "One thing which makes them close to us is their extensive widening of municipal self government."

Conceding that taxes were high (unlike in the Soviet Union), he continued: "But other things attract us – their drive to keep full employment, their very developed social sphere, medicine, pensions, education.

Bankers seek rescue plan

Continued from Page 1

capital injection by other local savings banks last January.

The Guarantee Fund, which has never before been called upon to intervene in a bank crisis, stumped up L200bn in September, but the situation has worsened in recent weeks.

Last June the Prato bank had total deposits of L2,200bn. But as worry among savers spread this past summer a wave of withdrawals began and by last month the deposit base was down to L1,900bn.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	21	70	Dubrovnik	F	16	61	Malta	F	20	68	Rhodes	S	15	59
Algiers	R	17	63	Edinburgh	F	10	50	Manchester	S	10	50	Rio de Jo	F	37	99
Amsterdam	F	09	48	Faro	S	22	72	Manila	F	32	90	Rome	C	18	64
Athens	F	13	55	Florence	R	13	55	Melbourne	S	35	95	Salzburg	R	07	45
Bahrain	S	30	86	Frankfurt	F	11	52	Mexico City	F	26	79	San Francisco	C	16	61
Bangkok	F	29	84	Funchal	F	22	72	Miami	C	25	77	Seoul	F	16	61
Barcelona	F	19	66	Geneva	C	10	50	Milan	F	10	50	Singapore	R	31	88
Beirut	F	21	70	Gibraltar	S	20	68	Montreal	C	03	37	Stockholm	F	06	42
Belfast	F	08	46	Glasgow	C	11	52	Moscow	C	00	32	Strasbourg	C	12	54
Belgrade	S	03	37	Guernsey	F	11	52	Munich	R	11	52	Sydney	F	24	75
Berlin	R	10	50	Helsinki	D	04	39	Nairobi	F	23	73	Taipei	C	26	79
Biarritz	C	16	61	H. Kong	R	20	68	Naples	S	20	68	Tangier	C	20	68
Bombay	S	31	88	Innsbruck	C	09	48	Nassau	F	28	82	Tel Aviv	F	15	59
Bordeaux	F	19	66	Inverness	F	08	46	New Delhi	F	28	82	Tenerife	S	23	73
Brussels	F	10	50	Islamabad	F	29	84	New York	C	10	50	Tokyo	S	20	68
Budapest	C	-3	27	Istanbul	F	08	46	Nice	F	17	63	Toronto	R	05	41
B. Aires	F	27	80	Jakarta	R	32	90	Nicosia	S	14	57	Tunis	R	21	70
Cairo	F	21	70	Jersey	F	12	54	Oporto	S	21	70	Valencia	F	17	63
Cape Town	S	20	68	Jo'burg	F	22	72	Oslo	C	05	41	Venice	C	11	52
Caracas	C	27	81	Lima	F	21	70	Paris	F	14	57	Vienna	C	01	33
Casablanca	F	21	70	Lisbon	Fg	14	57	Peking	C	11	52	Warsaw	F	06	43
Chicago	C	07	45	London	S	11	52	Prague	R	04	39	Washington	C	09	48
Cologne	C	10	50	Los Angeles	R	22	72	Reykjavik	R	03	37	Zurich	C	10	50
Copenhagen	R	06	43	Luxembourg	C	09	48								
Corfu	C	14	57	Madrid	F	17	63								
Dallas	C	08	46	Majorca	F	21	70								
Dublin	S	08	46	Malaga	S	21	70								

Readings at mid-day yesterday

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Dubcek cuts back speech

Continued from Page 1

about the then heretical experiment he led in extending economic and political freedoms.

"Notwithstanding what has been, and what has been done to us, I would willingly start again where we began."

Before arriving in Italy to receive the honorary degree in political science presented to him yesterday, Mr Dubcek confided in an Italian press agency his anxieties about being allowed to return to his wife and home in Bratislava.

Fear of this or other sanctions seems the most likely explanation for the shortened address. He left out criticisms of the last 20 years in Czechoslovakia as a period of "worsening economic stagnation, sterility and incalculable moral losses."

Even though he was grey-haired and more gaunt than when his high forehead and pointed features dominated media images of the dramatic "Prague spring", Mr Dubcek's faith in the democratic road to socialism appeared undimmed.

THE LEX COLUMN

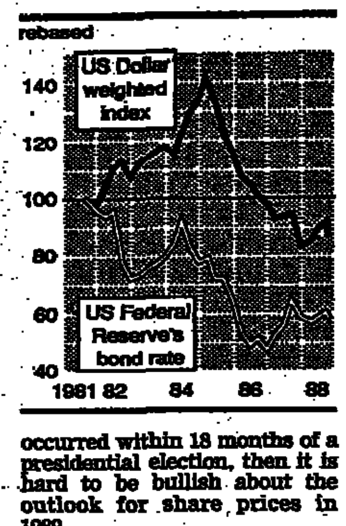
The bears pick up George's scent

If Wall Street can drop by close to 4 per cent in the week that its favourite candidate wins the election, then one can only tremble at the thought of what might have happened if Mr Dukakis had won a surprise victory. A 3 per cent fall in the value of the dollar against the D-Mark and a jump in US long bond rates to over 9 per cent is a dramatic response; and while it could be interpreted as a resounding vote of no confidence in the next president, it says a lot more about the current volatile state of the world's financial markets than about Mr Bush's policies, however uncertain they may be.

The knee-jerk reaction of the foreign exchange markets – according to popular conspiracy theory – reflected a belief that there was an unspoken international agreement to help Mr Bush win the White House by keeping the dollar stable ahead of the election. Now that this has been achieved the central bankers are retiring to the sidelines until they are confident that Mr Bush has demonstrated that he has the right stuff to solve America's chronic twin deficits. Even if there was some substance to this line of argument, there was never any chance that the President-elect would unveil a coherent budget strategy until next year at the earliest, and the idea that the other G-7 countries would suddenly stop supporting the dollar the day after the election, implies that international monetary co-operation is more idiosyncratic than imagined.

US economy

But while last week's tumble in US share prices was triggered by the unexpectedly sharp drop in the dollar and the consequent jump in long-term US interest rates – both of which could easily be reversed over the next couple of months – Wall Street has every right to be nervous about the longer term outlook. The US economy is entering the seventh year of its second longest post-war expansion and, despite last year's stock market crash, the S&P 500 has managed to end higher for each of the last six years. Even after last week's fall the stock market is still 8.4 per cent up on the year and one probably has to go back to the last century to find a period when the market rose for seven years in a row, let alone eight. In five out of the last six times that a Republican president was elected the stock market has fallen in the following year and on the basis that almost every US post-war recession has



occurred within 18 months of a presidential election, then it is hard to be bullish about the outlook for share prices in 1989.

Nevertheless, the bulls and the bears are as far apart as ever on Wall Street with Goldman Sachs, for instance, recommending a conservative 40 per cent exposure to the equity market, while Shearson Lehman is recommending its clients remain fully invested with 65 per cent in stocks. Given that over the last 60 years US share prices have risen on average by no more than 10 per cent per annum, and that investors can lock in a safe 9 per cent per annum just by buying US Government bonds, it is hard to argue a convincing case for equities over bonds.

Profit growth

There are plenty of negatives. The rate of growth of corporate profits has peaked and the Dow Jones Industrial average would almost certainly not be above 2000 were it not for fact that US and foreign corporations have emerged as by far the biggest investors on Wall Street – a highly uncharacteristic role. Over the last couple of years, the corporate sector has reduced the supply of equities by around $140bn per annum, but according to Goldman Sachs the figure this year will be over $200bn, or the equivalent of 10 per cent of the value of the stocks on the New York Stock Exchange. The sheer scale of the recent wave of mergers and LBOs looks unsustainable, and when one of the leading experts in the LBO field justifies its involvement in the $20bn plus battle for RJR Nabisco because of the need to "defend its turf", it is probably time to tiptoe to the exit.

However, there are plenty of well-known Wall Street firms that still argue that the market will be higher 12 months from now. Despite the robust October employment data, this group believes that economic growth has slowed to a more sustainable 2½ per cent per annum and the earnings on the S&P500 should rise by another 10 per cent, to $27 per share, in 1989. Inflationary pressures remain subdued and, provided that the consumer continues to behave, the recent slowdown in domestic demand will soon result in a renewed improvement in the trade deficit although it is probably too early to expect this to show up in the September trade figures, due on Wednesday.

Recession fears

The combination of the Gramm-Rudman deficit reduction act and continued economic growth will solve the budget deficit in time for Mr Bush to run again in 1992, and if oil prices remain soft and the dollar firms, the Fed could begin easing monetary policy again. However, this scenario under which equities are driven higher by long bond rates falling below 8 per cent next year, remains very much a dream case.

The current reality is far less reassuring, particularly for foreign investors. The US economy is delicately balanced and unless Mr Bush is going to renege on his very public commitment not to raise taxes, his policy options are severely limited. With unemployment at its lowest level in 14 years, the economy cannot grow any faster for fear of igniting the wage cost pressures which are already visible. Meanwhile, the new Administration cannot risk letting the economy slip into a recession. Not only is the budget deficit unusually high for this late stage in the economic cycle, but after six years of expansion the corporate sector is surprisingly heavily indebted by traditional standards. Interest expense of the non-financial corporate sector is equivalent to 35 per cent of cash flow, whereas at the bottom of the last recession, when cash flow was depressed, the ratio peaked at 30 per cent. The danger is that any downturn will be far deeper and more prolonged than would be the case if the US government and the corporate sector was more soundly financed.

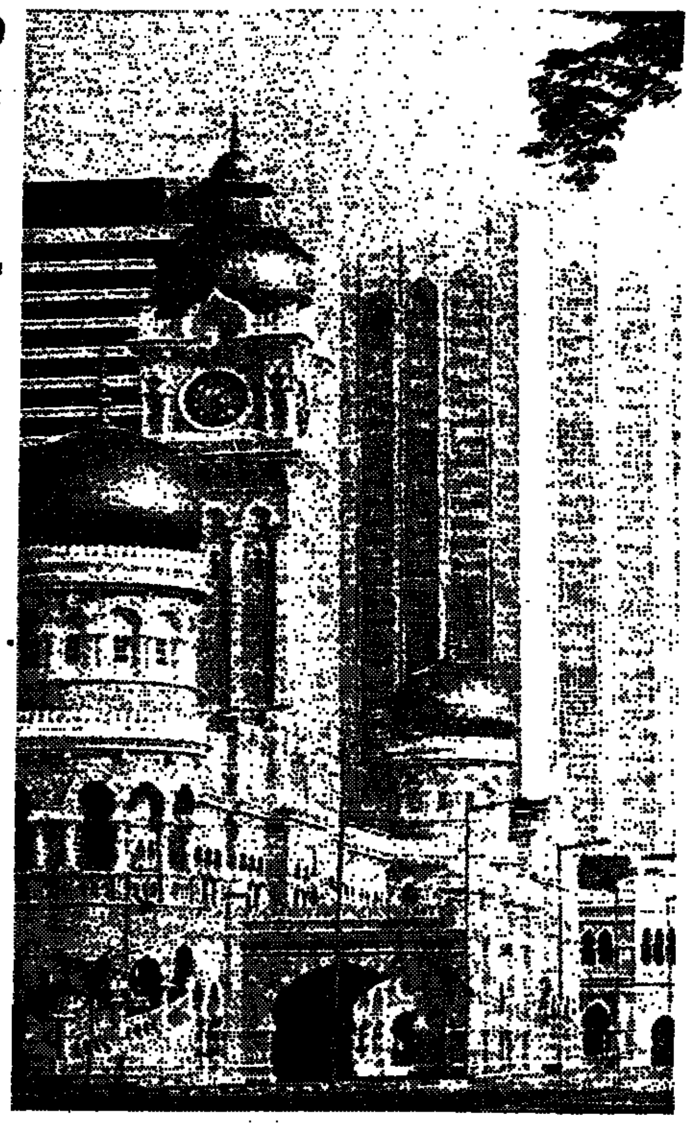
Last week's reaction in the foreign exchange markets reflects a very real concern that the necessary steps to correct the US budget and trade imbalances will be delayed for fear of precipitating a recession. This may well prove incorrect, but until the markets sense otherwise it is hard to make a convincing case for Wall Street.

SECTION III

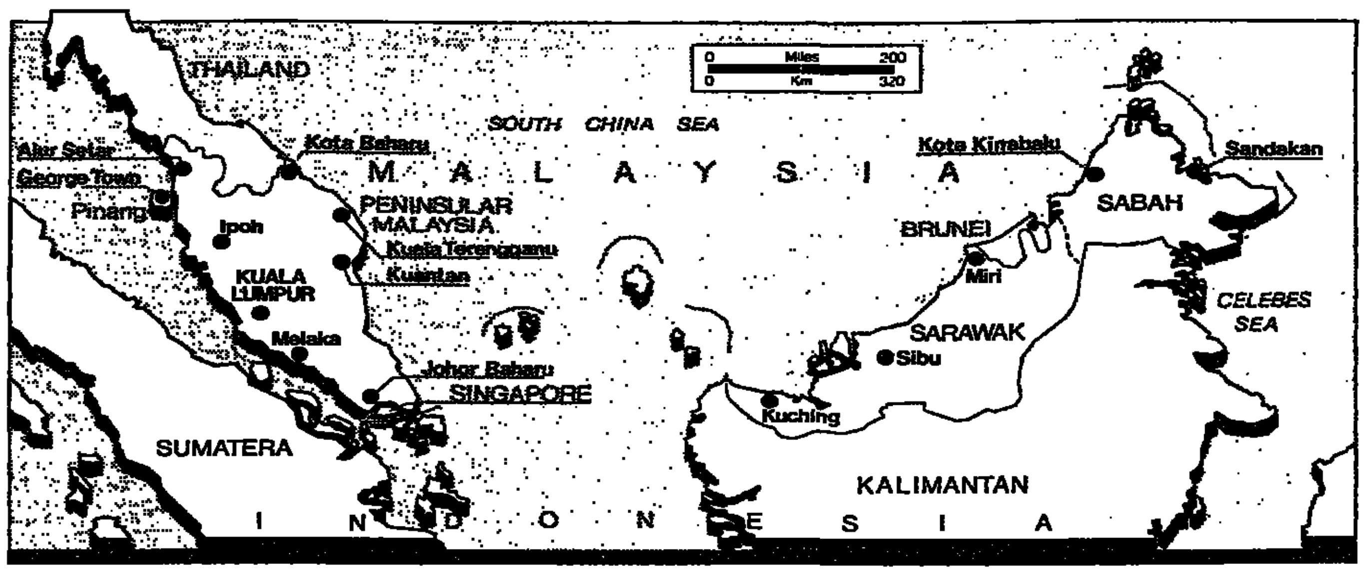
FINANCIAL TIMES SURVEY

Despite signs of economic recovery, Malaysia faces complex political divisions. But, as Roger Matthews reports, the Government's upbeat economic predictions, encouraged by firmer commodity prices, could help to ease the rising tide of opposition

Democracy under strain



Old and new: Petronas and the former colonial secretariat



Malaysia

MALAYSIA IS changing economically and politically in a way which could not have been forecast three years ago. Much of the change is unplanned, not all of it laudable, but at least part of it is probably beneficial in the longer term.

Malaysia, it must be remembered, was born one of the world's luckier countries. In natural resources it is a Rolls Royce of a country compared with the square-wheeled bicycles of Central Africa. Whatever is planted invariably grows. And if it cannot be grown, Malaysia digs it up or drills for it.

Thus, it effortlessly tops the world league in rubber exports, is stil just leading the way in palm oil and tin, is number three in cocoa and is in the second tier of oil producers.

Every country, of course, has a downside and in Malaysia's case, according to some senior politicians, that has been Britain. Not Mrs Margaret Thatcher's Britain, which has now achieved something akin to most favoured nation status in Kuala Lumpur, but the Britain of the bad old days of empire.

It is the former colonial masters who are blamed for saddling Malaysia with its complex racial and religious composition, aspects of which are at the root of many of the country's most sensitive political and economic issues.

Some 55 per cent of Malaysia's citizens are Malays, or bumiputras, "the sons of the soil". They are predominant in the political and rural arenas. The Chinese, who number about 33 per cent, are typically overseas Chinese, and, as ever, are to be found mostly in the cities and in business. Then there are some 6 per cent Indians, who appear to be proportionately over-represented in the law and the media.

It is a tricky mix, especially as race has often tended to be identified by job. It is that which the Prime Minister since 1981, Dr Mahathir Mohamad, has been trying more vigorously than his predecessors to change, and in so doing has indirectly helped to create the current uncertainties.

Since he was a a young man Mahathir has wanted to force the pace of change. Malays were more actively urged both verbally and through government policies to achieve an economic status more in keeping with their assertive political role.

Objectively, intellectually, it was not a policy with which the other races took issue, even though it often rankles at a personal level. Rather it has been the manner of its application which has caused the greatest controversy within and outside the Malay community. That, and the inextricably interlinked personality of Dr Mahathir.

On first sight, Malaysia is looking good economically, but very unhappy politically. Gross National Product will grow this year by nearly eight per cent, but the Malays are more divided than they have been at any time since independence from Britain in 1963. And unhappy Malays make for unhappy Chinese and Indians. The need to cheer everyone up has led to some economic rethinking by the government which, aided by the good fortune of sharply higher commodity prices, could help to lighten the political gloom.

The severity of the 1984-85 recession also contributed. Dr Mahathir's over ambitious rush into heavy industry has been checked as a consequence of poor management and ever more costly yen loans. Reforms have been forced on the loss-making steel and motor industries, the bloated, heavily Malay bureaucracy has been slimmed, public spending is partially under control again, a more seriously managed privatisation programme has been launched, corporate taxes cut, and more attractive terms offered to foreign investors, all suggesting the first blush of a Thatcherite dawn. But what is good for the private sector should also be especially good for the Chinese, and therein lies the rub.

Since 1970, the year after communal riots shook Malaysia's easy self-confidence, a New Economic Policy has been in force. Its main aim was to eradicate poverty and give the 55 per cent Malays 30 per cent of the country's corporate assets by 1990. Its policy of positive discrimination worked tolerably so long as the national cake was getter bigger every year and it was not perceived as robbing Chinese Peter to pay Malay Paul. But it was also accompanied by a big increase in direct government involvement in a wide range of industries and services.

The recession stopped the practical application of the *NEP in its tracks and ensured* that it would fall well short of its goals at the end of the decade. The uncertainty over what form the NEP will take after 1990 continues to depress local investor confidence and also creates doubts in the minds of some foreign companies. But at the same time the government is coming to see the positive benefits the country is enjoying from a more welcoming attitude to foreign capital and what is still in the pipeline as the more industrialised countries to the east seek new manufacturing bases.

Squaring the circle of a less regulated economy with greater bumiputra involvement has been made even more difficult by the long and bitter struggle for the leadership of *the Malay community. Dr* Mahathir can be abrasive and his haste meant that he sometimes consulted less than others would have liked.

These factors contributed to an unprecedented challenge for the presidency of the United Malays National Organisation, which heads the ruling coalition and by convention provides the Prime Minister.

Since April 1987, when Dr Mahathir narrowly won the party elections from Tunku Razaleigh Hamzah, the former Trade and Industry Minister, the battle has continued to be fought, trailing in its wake a series of individual and institutional victims but leaving the main contestants largely unscathed.

Elder statesmen, such as *Tunku Abdul Rahman, the* country's first Prime Minister, have openly accused Dr Mahathir of treading the path to dictatorship. He cites a string of examples from government attacks on the judiciary which led to the sacking of three Supreme Court judges, the muzzling of the media, tough new laws covering official secrets, and the use of the Internal Security Act to jail opponents without trial.

Dr Mahathir refutes the charges and cites recent by-elections, one of which he lost resoundingly, as evidence that the democratic process is still alive and well in Malaysia.

But there is no question that Malaysia is a significantly less liberal country than it was a couple of years ago. Dr *Mahathir did not set out with* that intention but that has been the consequence of the government shutting down successively each avenue of attack opened up by its Malay opponents.

Dr Mahathir has the massive advantage of being the incumbent and heads a more pliant New Umno which replaced the legally disbarred old Umno. The Malay community, however, still appears very divided which, theoretically, could put

Continued on page 3

KEY FACTS AND INDICATORS

☐ **Official title:** Federation of Malaysia, comprised of 13 states — the 11 states of Peninsular Malaysia gained independence in 1957 and became known as Malaysia in 1963, when Sabah and Sarawak joined the federation
☐ **Head of state:** Yang di-Pertuan Agong Tunku Mahmood Iskandar ibni Al-Marhum Sultan Ismail, (the Sultan of Johore) Malaysia is a constitutional monarchy whose king, the Yang di-Pertuan Agong, is elected every five years by a conference of nine state rulers
☐ **Head of government:** Prime Minister Datuk Seri Dr Mahathir Mohamad
☐ **Capital:** Kuala Lumpur
☐ **Population, 1988:** 16.96m
☐ **Land area:** 330,434 sq kms
☐ **Official language:** Bahasa Malaysia, but English is widely used in commerce and industry. Chinese dialects (Cantonese, Mandarin and Hokkien) are also widely used; Tamil and Punjabi is spoken among the eight per cent Indian element of the population
☐ **Currency:** Ringgit or Malaysian dollar, (M$ = 100 sen)
☐ **Exchange rate:** M$4.64 to £1; M$2.6 to US$1, Nov 1988
☐ **Per capita GNP:** M$4,554
☐ **Inflation, 1988:** 2 per cent
☐ **Growth in GDP:** +4.7 per cent in 1987; +5.3 per cent forecast for 1988
☐ **GDP at current prices, forecast for 1988:** M$63.796m.
☐ **Exports, 1987:** M$45.176m
☐ **Exports percentages include:** petroleum, 13.9; timber products, 13.4; and rubber, 8.7
☐ **Imports:** M$31.983m in 1987.
☐ **Balance of trade:** +M$13.193m in 1987.
☐ **Balance of payments, current account:** +M$5,887m.
☐ **External debt:** M$15.7bn at the end of 1987.

Sources: FT statistics; Government departments; Bank Negara, central bank.

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MALAYSIA 2

Growth rate of 7.4 per cent confidently predicted this year

Signs of continuing economic recovery

THE EVIDENCE noted in the final quarter of last year that the Malaysian economy was at last emerging strongly from the 1985-86 recession has been fully confirmed during the first nine months of 1988.

In mid-1987 a government which had learned to be cautious in its prognostications was still sticking to a 2 per cent growth forecast for the year. Even the most bullish private analysts could not envisage much more than 3 per cent.

As it turned out, the economy actually grew last year by 4.7 per cent and has maintained its momentum to the extent that Mr Daim Zainuddin, the Finance Minister, in his budget speech last month confidently predicted 7.4 per cent for the full year.

It is tempting to conclude from this that Malaysia is now back on the course it set itself during the 1970s and the first four years of this decade when growth rates of 7 per cent were accepted almost as a national right.

However, caution is still advisable. Although there are several encouraging elements to the past 12 months' economic performance, Malaysia remains highly vulnerable to fluctuations in world commodity prices and to international and domestic reaction to the inability of the Malay political leadership to re-establish the communal harmony which served the country so effectively for most of the 30 years since independence from Britain.

But, in the short term at least, there are no obvious reasons why Malaysia should not be able to sustain a 5-7 per cent growth rate. The commodities sector again looks remarkably buoyant. Prices for rubber have jumped by more 50 per cent this year due in large part to the increased demand for latex and tyres.

The US drought has helped push palm oil prices significantly higher, while timber prices have climbed over 10 per cent and tin has firmed. Despite the volatility and current weakness of oil prices Malaysia is this year expecting to produce an average of 540,000 b/d, a rise of 8.5 per cent over last year's figure of 497,000 b/d.

More encouragingly for the longer term is Malaysia's industrial output which has at last overtaken the commodities sector in terms of percentage of gross national product. Although the industrial sector is still dominated by textiles and semi-conductors the government is making more convincing efforts to attract a wider range of foreign investment and to take advantage of the relocation of industry from Japan, Taiwan and Singapore.

The increase of more than 30 per cent in manufactured exports registered last year has been largely sustained during the first half of 1988 and despite some slowing in the latter part of the year is still expected to produce a 12-month rise of more than 20 per cent.

The share of manufactures in total Malaysian export earnings has risen from 31 per cent in 1984 to over 48 per cent this year reflecting the steady restructuring which is taking place in the economy and the competitive edge currently enjoyed by industry in overseas markets due to improved productivity and some decline in the value of the ringgit.

This also shows through in import figures which in the first seven months of this year rose by more than 36 per cent compared with a rise of just 6.5 per cent in the corresponding period last year.

Imports of investment goods have risen this year by nearly 56 per cent but perhaps more important is the 23 per cent increase in intermediate goods, some 75 per cent of which were destined for the manufacturing sector.

The impact of this increased domestic demand on the current account has been substantially eased by the country's strong exporting performance and it seems likely that Malaysia will remain narrowly in surplus for the next two to three years. The forecast for this year is for a surplus of about $1.2bn, somewhat less than four per cent of GDP. Six years ago the corresponding deficit was more than 13 per cent of GDP.

The long term capital account is expected, however, to remain in deficit as the government continues to make early repayment of expensive yen-denominated foreign debt.

The Finance Ministry is forecasting a 25 per cent increase this year in net corporate investment to $682m and during the first seven months of the year prepaid some $973m of foreign debt which stood at $20bn at the start of the year.

The overall balance of payments is expected to show a modest surplus of about $370m which will push up reserves to $7.7m, the equivalent of nearly six months imports.

It can be argued that this important improvement in Malaysia's international finances is largely due to good fortune. This explanation is less convincingly argued on the domestic front where the reputation of Mr Daim Zainuddin as Minister of Finance appears to be undergoing an at least partial revision.

He is credited with leading a serious attempt to bring government expenditure under control and there are now indications that state intervention in industry will be diminished to the benefit of the private sector.

But with a substantial public sector deficit last year of more than $2.6bn – about 9 per cent of GDP, compared with a whopping 19 per cent in 1982 – it is going to take some time before the many sceptics are finally convinced that the government's political imperatives will not once again get in the way of more objective economic assessments.

A start has been made to improve the quality of management at some of the biggest loss-makers among the 533 non-financial public enterprises. The government is revamping its privatisation programme which, if professional advice is followed, could help to check one the most important drains on government finance.

This year's budget was also private sector oriented with its cuts in corporate taxes, additional incentives for small and medium-sized industries, and its apparent commitment to shifting more of the burden from direct to indirect taxation.

Whether these measures will create any improvement in the confidence of the private sector, as measured by domestic investment levels, has yet to be seen and will probably depend as much on political factors as on economic incentives.

The Chinese business community is still deeply uncertain about the future judged on both its interpretation of overall Government economic strategy and, more personally, on the effects on non-Malays of the bitter struggle for leadership of the Malay population. Emigration of both people and capital is difficult to measure but it is a fact which should cause concern to the government.

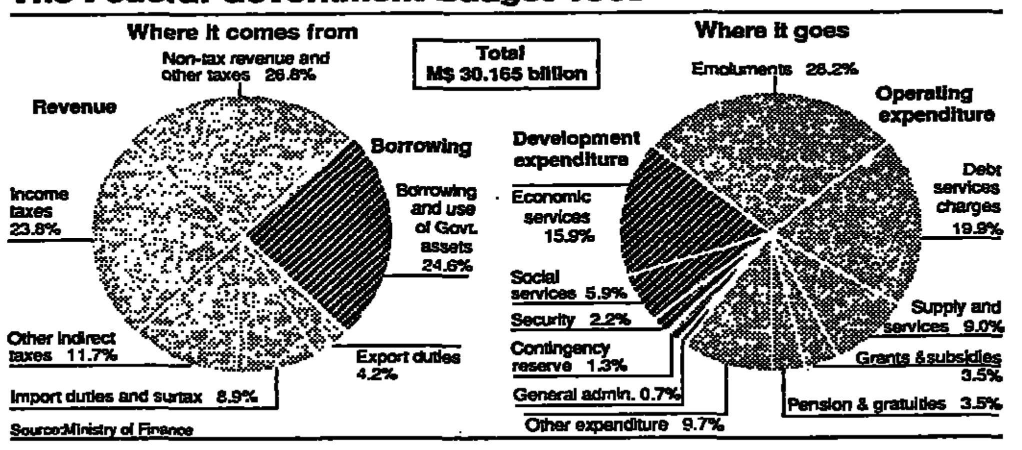
However, it does seem that the Government has effectively resisted political pressures to relieve the problem of graduate unemployment, particularly prevalent among Malays, through extending civil service opportunities.

The recession and the Government's tighter fiscal policies have meant that total unemployment has been creeping towards 10 per cent with new jobs created by increased economic activity being offset by the annual rise of over three per cent in the labour force.

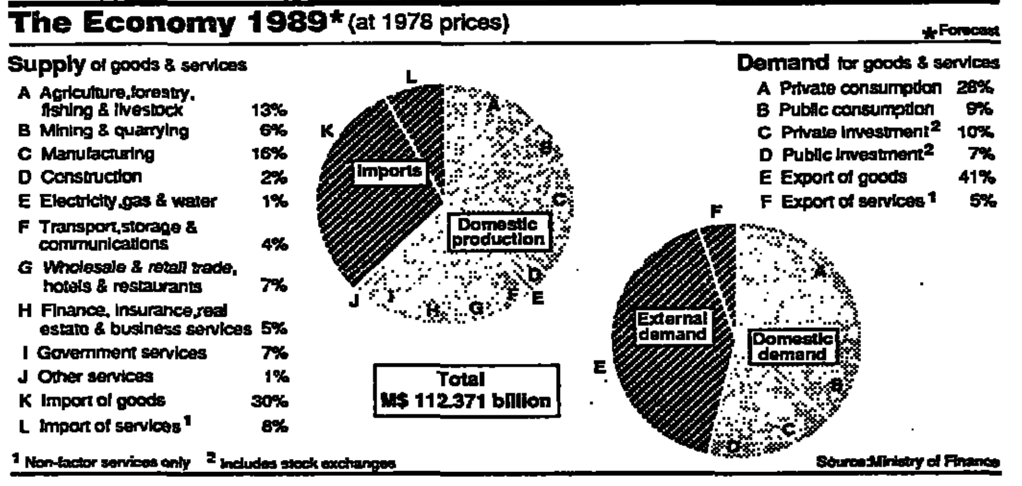
While this has served as a check on wages costs, it is also serving to highlight the failure of the educational system to provide enough of the skills needed to service a growing and more sophisticated industrial sector.

Roger Matthews

The Federal Government Budget 1989



The Economy 1989* (at 1978 prices)



Prime Minister applies a firm hand

Long struggle for political power among Malays

THE STRUGGLE for the political leadership of the majority Malay community in Malaysia has now been running for two years and shows little sign of abating.

During this time, Prime Minister Dr Mahathir Mohamad's grip on the premiership has not been seriously weakened, but neither has he been able finally to choke off the challenge to his authority.

Just over a year ago the Prime Minister said that it was impossible for a government to function effectively if all the time it was having to look over its shoulder to see who was supporting it.

"We cannot afford it," he said. "A developing country needs a firm hand if it is going to develop."

The firm hand was duly applied, selectively and at some cost to the country's democratic institutions and to individual human rights. Those institutions and individuals to have suffered most have not, however, been Dr Mahathir's principal political enemies. Rather they have been those caught up indirectly in the main struggle for power.

Malaysia's dominant political organisation was formed in 1946 under the anti-colonial banner of the United Malays National Organisation. It embodied the Malays' political aspirations and their political authority over the minority Chinese and Indian communities.

The President of Umno is the Prime Minister of Malaysia. It is an accepted convention and, with memories of the 1969 communal riots still fresh in people's minds, not one that any responsible politician would wish to challenge.

Another accepted convention has been that the presidency of Umno evolves through consultation and compromise. He is not subjected to direct challenges from within Umno.

Reconciliation has proved impossible in the last 18 months

Until April 1987 the system appeared to work. Then Tunku Razaleigh Hamzah, the former Trade and Industry Minister, together with Datuk Musa Hitam, the deputy president of Umno and former deputy Prime Minister, decided to stand against Dr Mahathir in the party elections.

They came within a whisker of winning and in so doing revealed a party which was split almost equally between what came to be known as the 'A Team,' representing the incumbents, and the 'B Team,' the challengers.

Reconciliation proved impossible and there has followed 18 months of skirmishing which has inevitably produced unpleasant consequences. Supporters of the B Team took the issue into the courts and much to their surprise the judge declared that Umno was an illegal organisation because some of its branches had not been correctly registered.

His ruling opened the door to a physical separation of forces with Dr Mahathir and his allies forming the New Umno while Tunku Razaleigh and his friends clung to the Umno of 1946.

In theory, this could lead to a formal, lasting, division of the Malays into two separate political parties. It is still theoretical because although that would be the logical political progression of what has happened, the next equally logical but quite unacceptable result would be that the minority Chinese and Indian parties would hold the balance of power. Neither Team A, Team B, nor indeed the Chinese community, would wish to see that occur.

The two principal Chinese parties have been left in an acutely uncomfortable position. The Malaysian Chinese Association (MCA), which has suffered its own internal problems, is part of the ruling coalition headed by Umno.

As such, of course, it works alongside Dr Mahathir and therefore has to be associated with Team A. But it also has its own domestic constituency to worry about and most analysts believe that the party would suffer badly if there was a general election in the near future.

The main beneficiary would be the opposition Democratic Action Party, whose leader Lim Kit Siang has been in jail for a over a year, together with three other DAP MPs, under the terms of the Internal Security Act.

Because Lim Kit Siang and his colleagues have been some of the most vociferous critics of the policies and practices of Dr Mahathir their natural allies are Team B.

The practical application of this shift in political alliances was displayed in August when in order to test the level of grassroots support for Dr Mahathir, Team B engineered a by-election in the southern constituency of Johore Baru.

Although there were special factors at work in this hardly typical constituency, it did nonetheless demonstrate the impact of much of the Chinese vote switching to the Team B candidate who romped home with 62 per cent of the vote.

The size of his majority startled the most seasoned commentators, particularly as Dr Mahathir had thrown his personal weight into the campaign.

At the next by-election in October, this time at state level, Team A managed to retain the seat, but by a very slim margin. The common factor in both constituencies was that the Malay vote reflected to a greater or lesser extent the split in the leadership.

Dr Mahathir has shrugged off the two results as of little consequence, which in the short term is correct. He may well believe that time is on his side and from his position of entrenched power can ultimately dictate the timing, if not the precise course, of events.

The Prime Minister is a consummate and determined politician who has recently cleverly played on the Malay desire for a reunified Umno by making conciliatory offers to his opponents which he has rightly judged they will refuse.

Whether it will be effective as anything more than a short-term tactic is doubtful, but it has served to put Tunku Razaleigh and Musa Hitam on the defensive especially as they scarcely have access to the media and have to find alternative methods of putting their message across.

The New Umno, meanwhile, claims to have registered about 1.1m Malay members and to be fast approaching the 1.4m total claimed by the old party. The scarcely credible message is that New Umno has achieved in six months what the old Umno took 40 years to do.


Dr Mahathir Mohamad: his grip on the premiership has not been seriously weakened.

If the claim is correct then Dr Mahathir and his allies have little to fear. However the vigour with which they continue to attack their opponents suggests that the figures do not provide a complete picture and that victory has yet to be achieved.

The one Malay political organisation which should benefit from the continuing divisions and uncertainty is the Pan Malaysian Islamic Party (PAS), which suffered a serious reverse at the last election, picking up only one seat.

However, there is no evidence that its support is growing or that its simplistic message of a return to more fundamental Islamic values offers much appeal outside the poorest, least educated parts of the country.

The prospect, therefore, has to be for a continuation of the basic political and very personal struggle. Most of the options lie with Dr Mahathir. He can soldier on as he has done for the past 18 months, constantly looking over his shoulder.

If he tires of this he could call a general election. His opponents say publicly that he is also considering engineering a state of emergency and the suspension of Parliament.

The Prime Minister has angrily denied such accusations and says such statements are designed to diminish confidence in the country while masking the only real ambition of Team B – to win back power.

It is scarcely fertile ground for reconciliation, but that is still the only option which makes any sense for Malaysia.

Roger Matthews

COMMODITIES

Bedrock of the economy

MALAYSIA'S SOLID bedrock of commodities has come to the nation's rescue. The vitality of the sector has been the most important factor for the strong economic recovery during the past 18 months.

The collapse in commodity prices signalled the Malaysian recession in 1985-86, and their resurgence has again pulled the country out of trouble.

There is a lot of truth in the claim that the Malaysian commodity sector thrives on other people's misfortunes.

For instance, planters are unlikely to forget the collapse of the price of palm oil to M$400 a tonne in 1986 – well below the production cost of M$550. Tanks at domestic ports were overflowing with nearly 1m tonnes of palm oil because of the world glut in edible oils.

To cut costs, Malaysian planters were forced to cease applying fertilisers and, as a result, production declined.

But it was the severe drought in India that changed the picture. When its full impact became known, late last year, palm oil prices shot up to over the M$1,300 mark.

India is the biggest buyer of Malaysian palm oil, importing about 1m tonnes a year. As New Delhi began to recover from the drought in the middle of this year, a similar disaster hit the US, sending soybean prices soaring with palm oil prices moving up in tandem.

The rubber experience was even more dramatic. The worldwide AIDS concern has led to a strong demand for medical gloves and condoms in recent years. Latex concentrate is used to make these products.

Last April and May, foreign and domestic demand for latex concentrate increased dramatically. The price of latex exceeded all expectations – at one stage it was fetching premiums of more than M$5 a kilo over RSS (ribbed smoke sheet) one rubber, the hedging grade.

Traditionally, the premium is between 50 cents and M$1.

Malaysia, which supplies 70 per cent of world latex concentrate, has been the main beneficiary of this upswing in demand, which has forced up rubber prices to an eight-year high.

Prices would have been much higher but for the massive disposals by the International Natural Rubber Organisation.

Since September 1987, when the price broke the "May sell" level, the Inro buffer stock manager has been selling rubber. The 370,000 tonne stockpile, accumulated over five years of supporting the market, has been reduced to a mere 30,000 tonnes.

Climatic problems or disease may have brought sharp price increases for Malaysia's two most important agricultural commodities, but the underlying factor for the steady improvement in prices has been strong world demand.

Ultimately, commodity prices are dictated by supply and demand.

Malaysia appreciates this fact well. In the 1970s and early 1980s, it tried to shield itself from the fluctuations in the price of commodities through a network of international commodity agreements.

The collapse of the International Tin Agreement and the tin market in late 1985 forced it to acknowledge that artificial price support measures can only work to ease temporary price gyrations, not prolonged gluts.

Almost overnight, Malaysia's tin industry shrank. Tens of thousands of workers lost their jobs and several hundred mines closed.

Today, the tin industry has emerged lean and fit. Production costs have been slashed to M$15 a kilo (from about M$21 before the 1985 tin collapse) and existing mines are now earning a reasonable return with current prices of about M$20.

Output, which peaked at 76,000 tonnes in the 1970s, is currently around 35,000 tonnes.

By 1990, Brazil will have overtaken Malaysia as the world's number one tin producer.

"We have passed the stage of claiming world titles," says Dr Lim Keng Yaik, the Minister of Primary Industries. "Let Brazil be the biggest tin producer.

"Indonesia will soon overtake us in oil palm production. Thailand can overtake us as the world's biggest rubber exporter by 2000. We have to accept these developments. Most important, we must continue to produce these commodities at competitive prices."

It is this acceptance of the harsh facts of international competition that is behind Malaysia's relentless expansion into cocoa cultivation. Like rubber and oil palm, the cocoa tree is not indigenous to Malaysia. Yet the crop is set to repeat the phenomenal success of rubber in the 1920s and oil palm in the 1970s.

Malaysia began commercial cultivation of cocoa in the late 1960s. In 1975, production was a mere 17,000 tonnes. The 1980s witnessed a surge in expansion of acreage and, by last year, production had reached 185,000 tonnes, of which 157,000 tonnes were exported.

Malaysia is now the third largest cocoa producer after the Ivory Coast and Brazil. Malaysian growers seem little daunted by the current world cocoa glut which has brought ruin to African farmers as prices have fallen to a 10-year low of £800 per tonne.

But Malaysia wants a bigger market share and this is the reason why it is not joining the International Cocoa Agreement. It is prepared to sit out the current cocoa glut, in the hope that the situation will improve once less efficient African growers switch to other crops.

Many Malaysian estates plant cocoa as a third crop to rubber and oil palm as part of their diversification programme. With their two main crops fetching good prices, Malaysia's farmers are able to dismiss the small losses they incur on cocoa cultivation.

The Malaysian timber industry has also picked up, buoyed by strong overseas demand.

Volume of Exports (% change)

	Tin	Rubber	Logs/Timber	Petroleum
1981	−4.40	−2.80	−0.20	−9.70
1982	−26.88	−7.29	16.93	18.16
1983	17.60	13.40	0.77	18.74
1984	−30.66	1.86	−35.46	15.94
1985	44.91	−5.94	16.47	1.57
1986	−29.66	1.33	−2.15	11.60
1987	22.89	6.84	62.89	−3.86

Source: [illegible]

The average price obtained this year has been about M$190 per cubic metre, compared with M$140 in 1984.

Fortunately, overseas buyers have readily accepted rubberwood for furniture and decorative products.

Until recently, rubberwood was largely used for fuel. With 1.9m hectares under rubber the potential export revenue from this source is substantial. So the authorities are considering planting rubber trees in their re-afforestation programme.

Such "rubber forests" would serve a dual purpose. When rubber prices are high, they could be tapped for their latex. Otherwise, they would be harvested for their wood.

The sharp fall in the price of oil, a major source of income for Malaysia, is a big worry for the authorities. The Government had projected an average price of $18.50 a barrel for Malaysian oil for this year but, for the first eight months, the average weighted spot price was $15.38 a barrel. This has largely neutralised the 8.5 per cent increase in crude oil production to 540,000 b/d.

Next year, the Government is planning to increase output to 562,000 b/d, and is projecting an average price of $14 a barrel.

"It's difficult to predict oil prices. Given the inability of Opec to curb output among its members and the less favourable world economic picture, oil prices may go down below $10," says a senior treasury official. He did not reckon Malaysia's planned increase in output would affect world prices, as "Malaysia is a relatively small player in the market."

Since Malaysia started exporting liquid gas to Japan in 1983 from its gas fields off Sarawak, exports of this commodity have been growing.

Exports in 1983 totalled 1.8m tonnes and are expected to reach 6.2m tonnes this year and 6.4m tonnes in 1989. Petronas, the national oil company, has a 20-year contract to supply 6m tonnes of liquefied natural gas to two Tokyo public utilities.

After a long lull, Petronas last year increased the number of exploration concessions it granted. The new production sharing agreements are more attractive than those signed in the mid-1970s, reflecting the increased risks and lower oil prices.

To date, Petronas has issued 18 production sharing contracts, covering 187,000 sq km, equivalent to about 35 per cent of the country's demarcated exploration acreage.

Until 1985, exploration and development work was confined to the traditional areas off Sarawak, Sabah and Trengganu, all operated by Shell and Exxon. But the new contracts have attracted interest from French, Canadian, Italian, Japanese, South Korean and Taiwanese groups all seeking oil in the Straits of Malacca and offshore Kelantan and Pahang.

"The stage is set for an exciting period of wildcatting," says Tan Sri Azizan Abidin, the Petronas president. He expects foreign contractors to drill 30 exploration wells a year on average over the next four years, compared with 10 wells last year.

Malaysia's current proven oil reserves are estimated at 3.2bn barrels, while its gas reserves are put at 54 trillion cubic feet, equivalent to three times its oil reserves.

Wong Sulong

Wong Sulong reports on some difficult choices over crops

The planters' dilemma

"I HAVE met many a planter who tells me he regrets chopping down his rubber trees," says Dr Lim Keng Yaik, Malaysia's Minister of Primary Industries. This neatly sums up the dilemma facing Malaysian plantation owners: how to achieve the the right commodity mix on their estates.

Whether the final choice is rubber, oil palm, cocoa or coconuts, it is likely to involve a 25-year investment and therefore is a crucially important decision for farmers. Achieving the right mix is doubly important given the vagaries of commodity prices and the increasing competition from neighbouring Indonesia and Thailand.

It was an easy decision to make in the 1970s, when cultivating palm oil was three to five times more profitable than rubber. Millions of acres of land for rubber were converted into oil palm estates. On most plantations as much as 70 per cent of the land is now devoted to oil palm, so much so that rubber is regarded as a smallholders crop without a future.

In the early 1980s, demand switched to cocoa which was then fetching three to four times the price for oil palm. The east Malaysian state of Sabah, with its rich volcanic soils, was ideal for cocoa and soon became the focus of the "chocolate rush."

Today it is rubber which is the favoured crop, providing as good a return as oil palm, while cocoa is losing money.

However, as Dr Lim says, "in future it is likely to be the suitability of the soil which determines the type of crop grown."

Mr Kenneth Eales, a long-time plantation director at Consolidated Plantations, Malaysia's third largest plantation company and part of the Sime Darby Group, does not regret his company's heavy switch into oil palm.

"Looking back over 17 years, the period when we switched to oil palm, there has been only one year, and that was last year, when profit per hectare was better for rubber than oil palm. We are bound to get it wrong for part of a 25-year cycle, but our decision to switch to oil palm must be judged over time," he says.

Consolidated Plantations' experience with cocoa (it has 18,800 acres or 12 per cent of its total planted acreage under the crop) has been a disappointment and it says it is no longer planning to increase its cocoa acreage.

While planters worry about the right commodity mix, Malaysia's corporate planners wished they owned such plantations as part of their corporate portfolio. In the buoyant years of the early 1980s, when businessmen-turned-speculators were making a killing on the stock and property markets, plantations were regarded as staid, low-paying business.

That perception changed with the 1985-86 recession. Even during the period of recession Malaysian plantations were returning a profit. In fact, most plantation companies have a low gearing and are cash-rich.

The government, for its part, is searching for a fourth export crop. So far, it has had little success. Possibilities ranged from tropical fruits and horticulture, to rattan and pepper. As a leader in tropical agriculture, Malaysian planters have introduced, over the years, a wide variety of innovations that have benefited the industry. Some, like tissue culture, technically specified rubbers and super yielding clones, are the product of years of painstaking research. Others are simple, yet effective. They include:

■ The barn owl which was introduced to kill snakes on oil palm estates. The snakes were first introduced to get rid of rats, which eat the palm fruits.

■ The pollinating weevil. Originally from West Africa, it was introduced by Unilever on its estates in Sabah, and has since been universally used on Malaysian estates to improve pollination and fruit yields.

■ The bullock cart. It is simple, yet cost-effective in transporting oil palm fruits from hilly estates along narrow paths to the mills. It has also provided work for the buffaloes, which, because of mechanisation, are increasingly becoming redundant on paddy fields.

■ The electric tapping knife which has replaced the knife developed by Henry Ridley, a pioneer in the rubber industry, during the 1920s.

■ Rainguards. These plastic covers, the most recent innovation, are wrapped around rubber tree trunks just above the tapping area. They allow the trees to be tapped even during rainy days, and, hence, help increase production.

Harvest time: worker picking palm oil fruit

Democracy

Continued from page 1

at risk its political dominance.

Some Chinese say, apprehensively, that the only sure way to reunite the Malays would be to raise the spectre of minority rule. Dr Mahathir's Malay opponents claim that he is already planning to declare a state of emergency and suspend Parliament.

Such talk inevitably creates communal tensions, not immediately visible, but quick to surface as, for example, just over a year ago when a soldier ran amok in Kuala Lumpur, killing three people. Parents rushed to take their children out of school, fearing the worst.

Political reconciliation among the Malay leadership would reduce the risk of a repetition, allow the government to embrace deregulation of the economy more wholeheartedly and thus allow all Malaysians to appreciate better the good fortune of their birth.

Wong Sulong on the banking sector's turnaround

Poised for an upturn

A RETURN to healthy balance sheets under the watchful eye of the increasingly powerful central bank is the priority task facing Malaysia's financial sector over the next few years.

The worst has already passed – Malaysian banks suffered from heavy exposure to the collapsed share and property markets during the 1985-86 recession. Four banks had to be bailed out with hefty government injection of funds.

Now, with the economy recovering strongly, the financial sector is poised to benefit. An added bonus is the prevailing low deposit rates, averaging around 3 per cent (the lowest in 20 years), while average lending rates are about 9 per cent. This has led to criticisms from consumer groups that the banks are making excessive profits at the depositors' expense.

As a result, there has been a marked shift out of fixed deposits into savings deposits as well as government papers and equities as the public seeks new investment opportunities and more attractive returns. The recent imposition of a five per cent withholding tax on interest on fixed deposits is expected to accelerate the trend.

During the first half of this year, the banking system recorded a resource gap of M$3.751bn with deposits declining by M$379m, while loans rose by M$3.372bn. The loan deposit ratio rose sharply to 94 per cent at the end of June compared with 89 per cent in December last year.

Bankers have defended the high interest margin by claiming that they have to cover the overhang effect of non-performing loans. A survey by Bank Negara, the central bank, showed that in 1986 commercial banks had to provide 2.8 per cent of the interest margin for bad debt provision and interest in suspense. In the case of finance companies, the provision was 4.5 per cent.

While coverage for bad loans and interest in suspension may be inevitable, the central bank feels that staff costs and overheads are too high, and that lax cost controls during the earlier period of prosperity has been a major factor behind declining profitability.

To cut costs and increase productivity, it has directed banks to restrict wage increases to five per cent and to spend at least 1.5 per cent of their total gross salaries on staff training and education.

Profitability in the banking system is being rapidly restored. Bank Negara said the sector incurred a pre-tax loss of M$64m in 1985 and M$224m in 1986, but recovered strongly to register a pre-tax profit of M$565m last year. However, this is still below the 1984 figure of M$1bn.

Curbing staff costs and the decline in overheads have contributed to the return to profitability, but the main factor remains the sharp decline in interest payments on deposits.

The monetary authorities are also turning their attention to tackling the problem of non-performing loans. The central bank feels that unless this problem is resolved it could be a drag, not only to the banking sector, but also on government efforts to stimulate new investments.

Consumer groups have become increasingly critical of banks' excessive profits. As a result, there has been a shift out of fixed deposits into savings deposits, government papers and equities

Provisions for interest in suspense and bad and doubtful debts rose by 70 per cent in 1986 and another 33 per cent last year to M$9bn – 12.7 per cent of total loans outstanding.

However, with the economic recovery and improved liquidity in the corporate sector, the quantity of provisions is being steadily reduced. In some instances, business people, who had substantial non-performing loans, have not only been able to re-service their debts, but have also been able to provide additional security for new loans to finance business expansion.

The Government feels that many heavily-indebted businesses would have a chance to recover if creditor banks helped them by restructuring their loans. Most financial institutions now have special rehabilitation units to study clients' problems and propose restructuring schemes for non-performing loans.

Listed companies such as Promet and United Motor Works have succeeded in rescheduling their debts and are operating on a stronger financial footing, while Faber Merlin and Malaysian Resources have announced proposals to convert debt to equity.

To help the Malay businessmen who are heavily in debt to the banks, Bank Negara and the Malaysian Industrial Development Finance is setting up a M$500m Enterprise Rehabilitation Fund to provide seed capital to ailing, but viable Malay businesses.

As Malaysia moves towards a more industrialised society, functions and areas of operations between various financial institutions are beginning to overlap. The largest of the country's finance companies and merchant banks can now marshal deposits and loans equivalent to that of a medium-size commercial bank.

To encourage fairer competition in terms of cost of funds, the authorities have narrowed the differential in the statutory reserve requirement.

Banks' statutory reserves are now only 0.5 per cent higher than finance companies and merchant banks compared with 2.5 percent in 1985. The larger finance companies are now allowed to participate in the interbank market. Commercial banks and finance companies are also allowed to participate in stock broking, alongside merchant banks

Having sorted out the non-performing loans crisis in the banking system, and the 1986 M$1bn scandal in the Deposit Taking Co-operatives, Bank Negara has now been given the task of re-organising the fragmented and problem-ridden insurance industry.

Parliament amended the Insurance Act in March to transfer regulation of the insurance sector from the Finance Ministry to the central.

The insurance sector's difficulties have arisen largely because of the sector's weak and highly fragmented structure with an over-sized, poorly trained intermediary sector (insurance agents) and weak supervision having led led to financial and technical mismanagement.

There are 60 insurance companies in Malaysia with assets totalling M$6.3bn, about equal to those of the country's 12 merchant banks. The 39 commercial banks have total assets of M$86bn.

The insurance sector accounts for only 3 per cent of total assets in Malaysia's financial system, compared with 9 per cent in Australia, 11 per cent in Japan and 15 per cent in Britain.

The 60 insurance companies compete for a total gross premium base of M$2bn. To earn the premium, the companies have to offer high commissions to their agents. For every one ringgit collected in premium, 50 cents goes on operating costs and agents' commission.

"High pressure selling, misleading consumers on their rights and benefits and absconding with premiums – all these are blatant examples which have led to Malaysian consumers' increasing disenchantment with the industry," says Tan Sri Jaffar Hussein, the central bank governor director general of insurance.

A major curse in the industry, he says, is fraud, particularly in motor insurance. In 1987, total claims on motor insurance alone amounted to more than M$500m. Motor insurance is the only area in which insurance companies lose money.

"In order to grow, the market needs to improve its net retention capacity. More effective risk pooling measures must be developed in order to enhance the retention of premium," says Tan Sri Jaffar.

As a gesture towards this end, the Government, in its 1989 budget, allowed oil companies to double the deduction on their insurance premiums on imported cargo if such insurance is taken with a Malaysian-incorporated company.

"The party is over. The days of smooth talk, fast cars and easy living are over," Tan Sri Jaffar told insurance executives recently, indicating that some far-ranging reforms are on the horizon.

He said the central bank would impose on the industry the rule of Emas (earnings, management quality, asset quality, and solvency).

Stock and commodity markets

Battered and bruised but wise after the event

THE KUALA Lumpur Stock Exchange (KLSE) and the Kuala Lumpur Commodity Exchange (KLCE) have come a long way since their incorporation in 1973 and 1980, respectively. Both have undergone their baptism of fire and have emerged chastened but wiser.

The KLSE, together with its "twin", the Singapore Stock Exchange, were closed for four days in late 1985 as a result of the market crisis following the collapse of Pan-Electric Industries.

With the benefit of this lesson, the two exchanges decided to ride the storm during the equities crash last October, taking a drop of more than 40 per cent in their market capitalisation, rather than to shut doors, which the Hong Kong stock exchange did.

The KLCE was also closed for 18 months as a result of a massive default in its palm oil futures in March 1984. It was relaunched in October 1985 under a completely new set of rules designed to prevent a similar recurrence.

With nearly 300 countries listed under eight sections, and with a market capitalisation of $35bn, the KLSE ranks as one of the leading securities market in the Asian region.

Unlike many other Asian Bourses, the KLSE has a large plantation section, a reflection of Malaysia's s status as a major commodity producer.

The KLSE has a large plantation section, a reflection of Malaysia's status as a major commodity producer

This year there has been a gradual recovery from last year's world stock market crash. By early November the KLSE composite index of 83 countries had risen to 347 points compared with 261 points at the end of last year, an increase of 33 per cent.

The nature of the players on the KLSE is fast-changing. Until 1985, the market was largely dominated by individuals but today the Government-owned National Equity Corporation is one of the biggest participants in the market.

Since 1985 corporatisation of securities has also been gaining momentum. Six banks have now taken majority stakes in stockbroking firms.

A landmark development will take place later this month when Rashid Hussein Berhad, the largest of the Malaysian stockbroking firms, issues its listing prospectus.

It will be the first securities firm in the South East Asia to get an exchange listing. RHB will have a paid-up capital of 60m ringgit, small by western standards but the biggest among Malaysian stock brokers.

RHB is known for its international contacts. It has successfully placed large parcels of Sime Darby, Consolidated Plantations and United Engineers Malaysia with overseas clients.

Mr Rashid Hussein, the senior partner in RHB, feels that for the KLSE to grow, it must attract more foreign investments, something which RHB intends to do.

Malaysian stocks are familiar with British and Hong Kong investors, but are hardly known in the US and Japan. The successful launching of the $96m Malaysia Fund on the New York Stock Exchange was hailed as a giant step in the right direction, but its timing was unfortunate coming just a few months before the October crash.

To encourage greater foreign participation in the securities industry, the Government recently allowed foreigners to buy a holding of up to 49 per cent in local stockbrokers, up from 30 per cent. So far, only one foreign stockbroker, W I Carr, has taken a 30 per cent stake in a Malaysian stockbroking company, although several are currently negotiating stakes.

Major projects planned by the KLSE over the next year include the introduction of a Central Depository System, a trading support, a second board and property unit trusts.

The Central Depository system will reduce the movement of share scripts, thereby reducing the risks of loss and fraud. The trading support system is aimed at enhancing the efficiency of the present trading system with semi-automatic trading, real time price reporting and market surveillance.

The second board will cater for small and medium-sized companies with growth potential, but which do not qualify for the main board.

The idea behind the property Unit Trust is to ease the crippling financial burden of property developers and owners in the current property glut. Commercial International Merchant Bankers is expected to be the first on the market with a M$100m property trust to be manged by Australian consultants.

The KLCE is set to become the dominant multi-commodity and futures market in South East Asia. It currently trades in six futures – crude palm oil, palm kernel oil, RSS one rubber, SMR 20 rubber, tin and cocoa. Its CPO contract, its first, remains the anchor contract for the exchange.

Total turnover for last year was 131,411 lots of 25 tonnes each – or a daily turnover of 541 lots. This is three times more than the turnover in 1986.

Buoyed by volatile prices, as a result of droughts in India and the US, trading in CPO futures was very active this year. Average daily turnover for the first eight months exceeded 800 lots.

The tin contract, introduced in October last year, is proving to be another success. It is currently trading at more than 200 lots of 5 tonnes each daily. The gradual depletion of the world tin overhang and the steady improvement in prices have stimulated interest.

The other contracts have proven to be less successful. The palm kernel contract is temporarily suspended as participants could not agree on its contract terms. The rubber contracts have been substantially revised but dealers still prefer to trade outside the exchange under the old whispering system. There is, however, some activity in the SMR 20 contract.

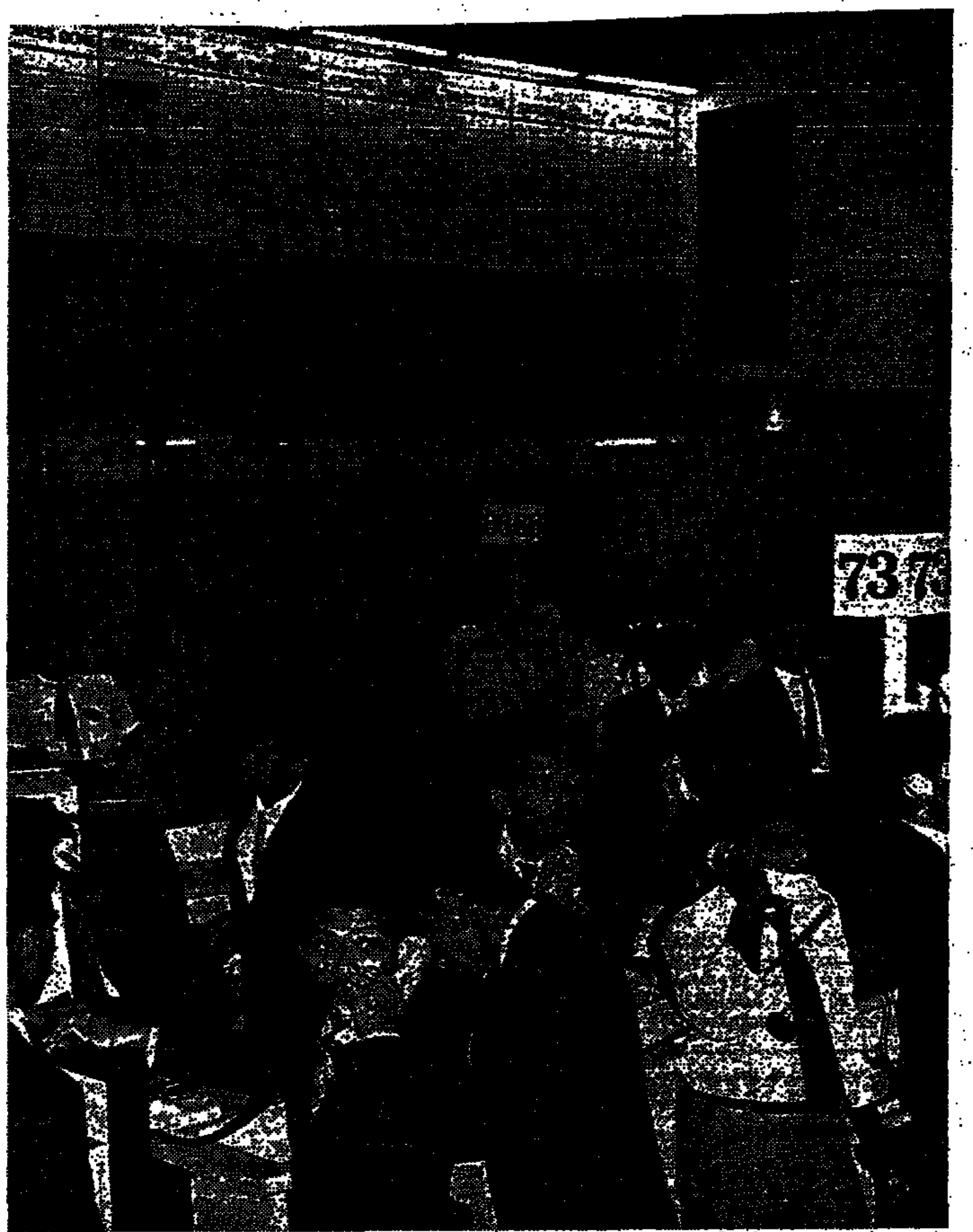
Cocoa futures was introduced in August and so far its performance has been disappointing, with average daily turnover at less than 30 lots. This is largely due to the depressed prices brought about by a world glut, and also the absence of foreign participants.

KLCE officials however are not unduly worried about the low turnover, saying, like the tin contract, it would take time before volume builds up.

Both the tin and cocoa contracts are designated in US dollars to attract foreign participation and to allow for arbitrage.

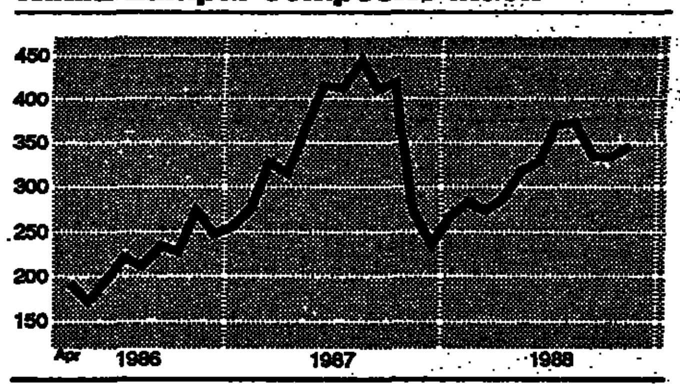
At the moment, the tin contract is the only one of its kind in the world, while the cocoa contract is the only one in the Asian time zone, and therefore complements cocoa trading in London and New York.

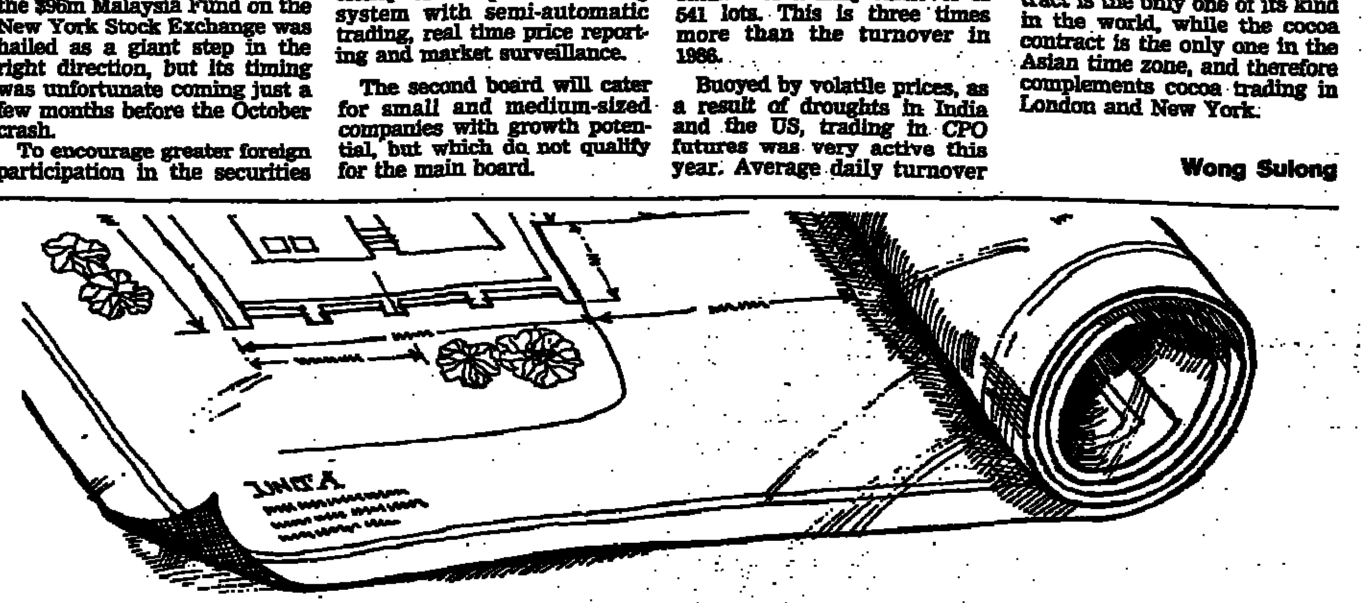
Wong Sulong



Money on call: dealers on the Kuala Lumpur Stock Exchange.

Kuala Lumpur composite index





Roger Matthews on Kuala Lumpur's widening role in foreign affairs

Mahathir's new internationalism

THERE IS nothing like a domestic political crisis for concentrating a government's mind on foreign policy issues, or more precisely in Malaysia's case on those issues which can most readily be translated into successes.

For a couple of months before last year's meeting of Commonwealth heads of government in Vancouver, the Foreign Ministry in Kuala Lumpur had been engaged, at the request of the Prime Minister, on a study of the costs and benefits of remaining a member of the organisation.

Given Dr Mahathir Mohamad's known lack of enthusiasm for the Commonwealth the implication was that Malaysia might just decide to pull out unless more tangible reasons could be found for staying in. It was therefore no small surprise when it was announced that Malaysia, far from pulling out, would host the next such meeting expected to be held in the second half of October 1989.

The presence in Kuala Lumpur of such an array of regional and world leaders will not do any political harm to Dr Mahathir and, according to Foreign Ministry officials, may allow Malaysia an additional opportunity to concentrate the visitors' minds on those issues which it considers particularly important. Malaysia has felt for some years that Commonwealth meetings tend to spend far too much time on generalities rather than the specifics which could be of most value to developing countries.

Canada, as distinct from Britain, is credited with taking Third World issues seriously and Malaysia hopes that the main thrust of next year's gathering will be directed towards economic matters and will only subsequently turn to political questions. It is anxious to see progress made in such areas as scientific development and technology transfer and would welcome the establishment of a fund precisely for that purpose.

Mrs Margaret Thatcher, the British Prime Minister, appears to have played a major role in achieving Dr Mahathir's change of attitude to the Commonwealth. In Kuala Lumpur she is is regarded as "someone with whom you can do business".

Malaysia is still far from persuaded that the 1992 establishment of a single European market will not be far more harmful to exporters in the developing world than is presently admitted. "We want to address this issue in very specific terms because we know that in certain areas some countries presently exporting into Europe may be cut off," said a Foreign Ministry official.

But whatever Malaysia may gain in practical terms from the Commonwealth meeting is likely to be secondary to the political benefits perceived by Dr Mahathir.

When he returned to Kuala Lumpur earlier this year from chairing the United Nations conference on drugs in Geneva it was to a massed hero's welcome at the airport. When last month Malaysia won one of the rotating seats on the UN Security Council the Prime Minister's instinct was to declare a celebratory national holiday, but was eventually content with calling just a one-day school holiday.

The Security Council seat, the Commonwealth conference and Malaysia's leading role in the issue of Vietnamese refugees, should ensure that in the coming year the country will perform more visibly on the international stage. It is a role which theoretically it should be well equipped to fulfil.

Malaysia's decision to host the next Commonwealth conference, its role in the Vietnamese refugee issue and its recently won seat on the UN Security Council should ensure it a more visible international profile

While the cornerstone of its foreign policy rests on its membership of the Association of South East Asian Nations, Malaysia is also a member of the Non-Aligned Movement and the Islamic Conference Organisation. As such its concerns range from more immediately local issues such as Kampuchea and Afghanistan, to the Palestinians and the Middle East in general, through to South Africa and the North-South dialogue.

Malaysia is also largely free from troubling bilateral issues, enjoying generally good relations with all its immediate neighbours. The sensitive relationship with Singapore has improved over the past 12 months with both sides striving to be more aware of each other's concerns.

Among its other four Asean partners, Malaysia admits to bilateral difficulties only with the Phillipines. According to the Foreign Ministry that relationship can never be described as "fully normal" while Manila's historic claim to Sabah (part of east Malaysia) remains written into the Phillipines constitution.

President Marcos said in 1977 that the relevant clause would be repealed and Mrs Corazon Aquino has subsequently repeated the pledge but the necessary legislation is still stuck in the senate. Malaysia says it is asking for nothing more than the removal of the single offending clause and once this is achieved believes progress could be made in tackling outstanding issues such as the limits of their respective territorial waters, anti-smuggling measures and the status of an estimated 130,000 Filipinos who are in Sabah illegally.

However, a satisfactory resolution of this issue could well stimulate the long-standing claim by Brunei to that slice of Malaysian territory which splits its tiny land area into two and which the Foreign Ministry in Kuala Lumpur is far less enthusiastic to discuss.

A potentially more explosive territorial dispute exists over the Spratleys, a widely scattered chain of islands in the South China Sea to which Malaysia has a partial claim, emphasised by its small military presence on a couple of outcrops. There was a clash earlier in the year between China and Vietnam, and the Phillipines also has an interest.

The importance of the Spratleys is almost exclusively economic with all the claimants motivated mainly by the possible presence of hydrocarbons. Malaysia believes that it is vital for the competing interests of the four countries to be resolved through bilateral negotiations and was encouraged by China's statement that it would not resort to force.

Malaysia's proximity to Vietnam has over the past 12 years also made it a natural target for refugees fleeing by boat, some 270,000 of whom have passed through the country during that time. About 12,000 still remain and Malaysia now says it wishes to develop Pedong island off its east coast where many are housed.

The preparatory meeting of the UN-sponsored international conference on Indochinese refugees is due to be held in Kuala Lumpur early next year and in the run-up to it Malaysia has established firmer bilateral contacts with Vietnam.

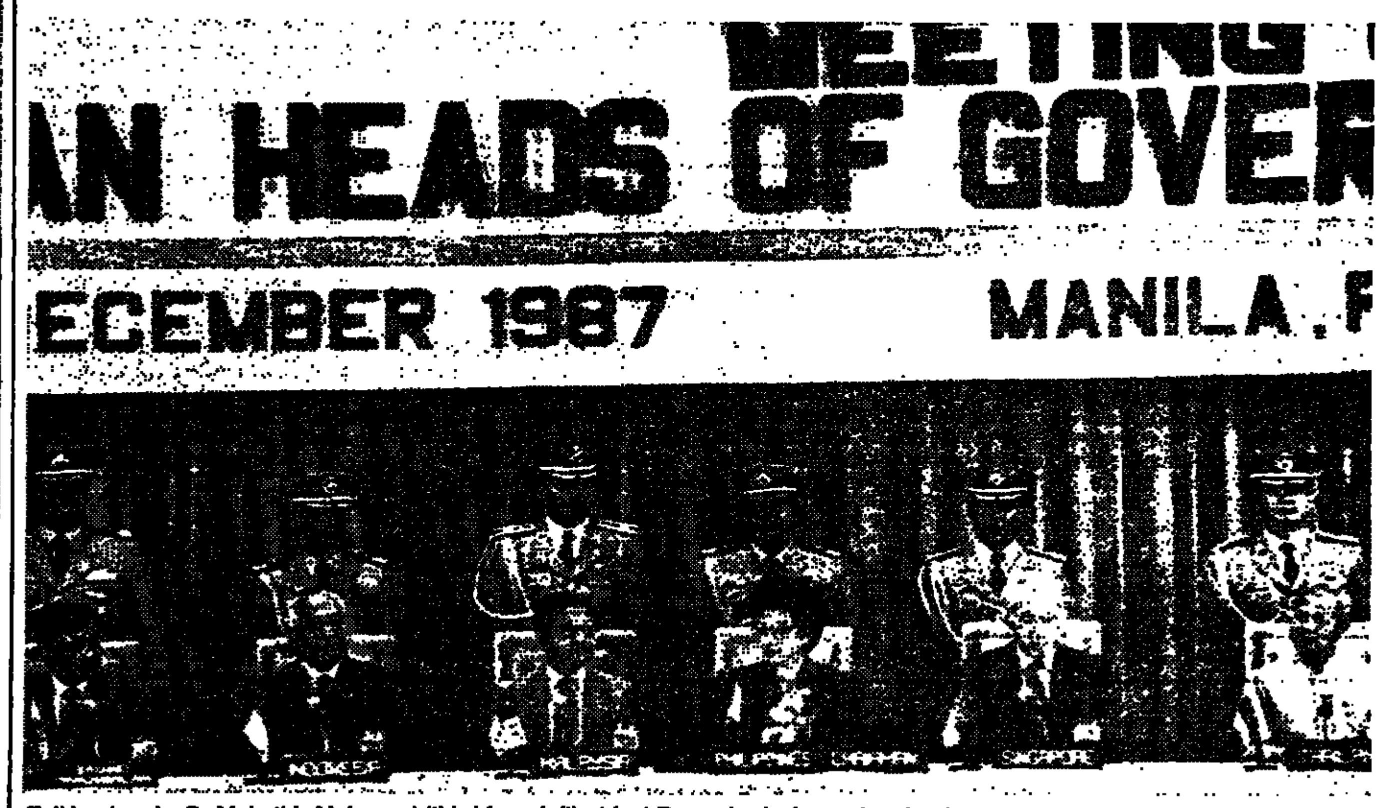
Vietnam has expressed a willingness to receive those refugees who wish to return home but the number in that category can be counted on one hand with the overwhelming majority determined to find a home in the US, Canada, Australia or France. At the same time the Vietnamese government has told Malaysia that it will strive to prevent any further illegal outflow and expand the scope of the orderly departure programme.

There is no sign as yet whether the contact Malaysia has established with Vietnam on the problem of the boat people might eventually be of a value on the Kampuchean issue, on which Kuala Lumpur continues to work closely with its Asean partners, particularly Indonesia.

The current problems accompanying the Soviet withdrawal from Afghanistan underline how vital it is, in Malaysian eyes, for the Vietnamese military pull-out from Kampuchea to be accompanied by a framework for a durable political solution.

Trevor Humphries

Handshake on an arms deal: Dr Mahathir and Mrs Margaret Thatcher at the signing ceremony for the £1bn military sales package



Talking heads: Dr Mahathir Mohamad (third from left) at last December's Asean heads of government conference in Manila

DEFENCE

A tall military order

DURING THE parliamentary debate on the budget at the end of October, Mr Lee Lam Thye, the acting Leader of the Opposition, demanded that Malaysia's intended £1bn arms purchase from Britain should be opened up to the public gaze.

"The Malaysian public who are the taxpayers have the right to be fully informed about the proposed arms deal, the details of the purchase, the air worthiness of the new fighter planes, the actual costs and other information which does not breach defence secrets," he said.

Mr Lee failed to see the logic or necessity for the government to spend such a substantial sum when it could be better utilised on education, housing and health care, unless Malaysia aspired to be a regional military power. He was particularly concerned about the choice of the Tornado aircraft at a cost he estimated of M$100m each.

Although there is no chance of the details of deal being made public — Mr Lee's speech was not even reported in the local media — it does nonetheless remain one of the more intriguing arms sales packages of recent years.

So far all that has been signed by Malaysia's Prime Minister Dr Mahathir Mohamad and the UK's Mrs Margaret Thatcher is a memorandum of understanding with both the final composition of the package and the precise manner of payment still to be worked out.

However, it seems probable that the purchase will involve 8-12 Tornados, a refurbished Oberon class conventional submarine, Rapier missiles, artillery, and sophisticated communications equipment.

Countertrade will account for a large part of the deal, but there is also a cash element. Britain will take from Malaysia oil and gas (as in the far bigger sale to Saudi Arabia) together with other commodities such as rubber and palm oil. Deliveries and payments will be spread over at least 10 years.

For Britain the sale represented something of a coup, especially in light of its recent troubled relations with Malaysia, while also providing a springboard into the South East Asian market where there are prospects of several other promising sales. For Malaysia the terms offered by Britain provided the opportunity to catch up some of the lost ground caused by the clamp on defence spending as a result of the recession.

Malaysia's £1bn arms deal with the UK is one of the more intriguing deals of recent years

Dato Abang Abu Bakar, the deputy Defence Minister, said during that period the defence budget had been pared back to sufficient funds to continue with existing projects. Even then it was difficult to keep up with the housing programme for military personnel and no possibility of being able to consider significant capital expenditure.

As a result, he said, Malaysia now needed to replace and upgrade existing equipment to the point where it could again defend its strategic interests. Next it wanted to plug some gaps which had appeared and perhaps introduce elements of deterrence.

He said that for the past few years the Ministry of Defence had been studying various options and assessing the aircraft on offer, including the F-16, the Hawk 200 and the Mirage. It had still not completed its assessment of the F-18 and was not, therefore, in a position to say whether it was superior to the Tornado in certain roles and whether Malaysia might still be contemplating a purchase.

"It was particularly important for us to upgrade our air defence role but we were also interested in a single package, government-to-government," said the deputy minister. "The UK made us an attractive offer, both in the suitability of equipment and the aspect of countertrade."

He added the Malaysia would be paying for it over a 10 year period which meant an annual allocation of M$500,000 or little more than £100m. "It will also provide us with new outlets for our commodities, the chance to penetrate new markets, and thus will also help to build up our own economy," he said.

The size of the package may contract or expand according to the performance of the Malaysian economy over the coming years. In an ideal world, Malaysia might have liked to purchase up to 34 Tornados. However the upper limit would be 24, split between 16 of the IDS, or ground attack/interdiction version, four of the ADV or air defence variant, and four ECR or electronic combat and reconnaissance.

Although the basic cost of each aircraft is about £20m this more than doubles when the whole package including weapons systems and spares is added up. The training of pilots and navigators, plus ground crews for this highly sophisticated aircraft, is both lengthy and expensive, with most of it having to be carried out in Britain. It could be nearly three years before Malaysia's first Tornado becomes operational.

Their presence scarcely alters the strategic balance in the region but the capacity of the ground attack version of the Tornado to hug the contours of the ground makes its extremely difficult to detect and therefore to defend against, a characteristic which will have been noted by Malaysia's neighbours.

It will be even longer before the country's first submarine puts to sea. Dato Abang said that it would take some 18 months to refurbish the submarine and he estimated that it could take five years to train staff. Malaysia needs the vessel, with hopefully more to follow, to protect its strategic interests and Exclusive Economic Zone, particularly in the South China Sea where there are competing claims.

Assuming that there are no damaging hitches — political, technical or financial — Britain's role as the major arms supplier seems likely to continue well into the next century and has the potential for substantial expansion. Some estimates suggest that the value of the present package to Britain is much closer to £2bn than the £1bn quoted and, if the Malaysian economy performs well, could grow significantly beyond that.

Roger Matthews

Wong Sulong on a successful switch to traditional strategies

A hasty retreat from an ambitious policy

MALAYSIA HAS sounded the retreat from its disastrous heavy industrialisation programme, launched in the early 1980s with the aim of propelling it to the front ranks of industrial nations by 2000.

Dr Mahathir Mohamad, the Prime Minister, is determined to successfully treat the financial haemorrhage of some of his pet projects. National pride has been bruised. But the road to recovery has to begin with an admission of mistakes.

Malaysia is returning to the well-tried path of resource-based, consumer and export-oriented industries. It is once again assiduously wooing foreign capital and know-how, a policy which is already beginning to yield impressive results. If the political hierarchy does not change course in mid-stream and the policy is sustained then Malaysia could well join the ranks of the newly industrialising countries of South East Asia.

There is national consensus that the economic future lies in industrialisation. Given a small domestic market of only 17m people the economy has to be export-oriented.

The efficient commodity sector will remain the vital core of the economy for many years to come, but it is unlikely to be able to generate enough jobs for a young population with increasingly high expectations.

Malaysia's manufacturing sector has performed extremely well in recent years and has been by far the most dynamic sector since independence, a fact which is seldom recognised by foreign observers or many Malaysians themselves.

The manufacturing sector, which this year accounted for 24 per cent of gross domestic produce this year compared with 20 per cent in 1984, has now replaced agriculture as the biggest single component of gross domestic produce.

According to a treasury economic report, the manufacturing index, which rose by 12.5 per cent in 1987 remains firmly on the upward trend, having already registered an impressive 17 per cent rise in the first seven months of this year.

The star performers have been the rubber-based industries (helped partly by the mushrooming of rubber gloves and condom factories) which increased by 43 per cent, basic iron and steel (up 30 per cent) and the electrical and electronic industries (up 25 per cent). Output of construction-related materials also recorded increases over the same period for the first time in three years in response to the mild recovery in the depressed construction sector.

Buoyed by strong external demand, exports of manufactured goods grew by 33 per cent in 1987 to 20.2bn ringgit; the treasury expects a hefty 30 per cent increase to 26.3bn ringgit this year, equal to 48 per cent of total exports.

In anticipation of a less favourable global economy, manufactured exports for 1989 are expected to slowdown, but the government is still projecting a 19 per cent increase to 31.3bn ringgit.

A closer examination of the performance of manufactured export shows that it has a very narrow base. Last year, more than 60 per cent of the export in this category comprised electrical and electronic goods and textiles. The authorities acknowledge this dependence on the fortunes of the world computer industry, and textile quotas in the West, and are encouraging diversification into such priority areas as food and agro-based industries.

Private investment is picking up strongly in response to the economic recovery and the government's easing of restrictions and incentives over the past few years.

Between January and August, the Malaysian Industrial Development Authority (Mida) approved 428 manufacturing projects with a total equity of 6.6bn ringgit, compared with 183 projects with a total equity of 3.2bn ringgit during the same period last year.

The employment potential of these projects is estimated at 82,000 compared with 32,000 for those projects approved over the corresponding period last year. The direct foreign equity participation in the projects given the green light this year is expected to total 1.3bn ringgit compared with 370m ringgit for the same period in 1987. The major foreign investors are from the US, Japan, Taiwan, Singapore and Hong Kong.

"I would definitely say the government is responding. The incentives and relaxations, taken together, represent a very substantial easing up for investors, particularly new foreign investors. But this process should continue," says the head of a large UK manufacturer in Malaysia.

Malaysia is returning to resource-based, consumer and export-oriented industries and once again wooing foreign capital

In its October budget, the government cut corporate income tax by 5 per cent to 35 per cent, and promised to gradually abolish the 5 per cent development tax. It had already repealed the 3 per cent excess profits tax last year. These decisions represent a commitment to create a more attractive business environment.

But problems remain. The most intractable is the bureaucracy at state and departmental levels, a major hinderance to businesses.

"For example, a business may have received clearance by the trade and industry ministry, including meeting the requirements of the authorities' New Economic Policy, but another department may dispute this interpretation of the NEP and hold up the project. A state government may, for example, insist that 70 per cent of the labour force is employed from within the state" says a local businessman.

Corruption can be a problem, but the government blames this on business people, particularly locals, who, it claims, will offer a bribe even if one is not demanded.

Trade and Industry Minister Rafidah Aziz accepts that businesses are often hindered by bureaucratic intransigence, occasional crossed line and domestic political interests.

"I wish Kelantan (a predominantly Muslim state) would stop talking about imposing whipping for drinking (alcohol). Who would want to go there?" she recently told businessmen.

The ministry has designated Mida as the one-stop agency where "investors need only approach to obtain most of the approvals required at the federal level." The ministry has assured the business community that a decision on most applications would be forthcoming within two months. The appointment of Tan Sri Zainal Sulong, the retired head of the Foreign Ministry, as the new Mida chairman has also been welcomed by investors.

The future of the government's NEP remains the great uncertainty. The 20-year programme, designed to give the indigenous Malays a greater share of the economic wealth, expires in 1990.

Government statistics show the Malays only own 18 per cent of corporate wealth; the target is to reach 30 per cent by 1990. The government insists the NEP has not been a deterrent to growth, but the local Chinese business sector insist the NEP requirements impose an onerous burden on them. Foreign embassies say foreign investment would be greater if the post-1990 NEP policy is proclaimed and found acceptable.

The NEP will continue because it would politically suicidal for the government to abandon it, especially given the current infighting between Malay political leaders. To deflect criticism the government will play down NEP's wealth-distribution aspect and emphasis its focus on eradicating poverty.

"You will notice that in his speech at the recent Umno general assembly, the Prime Minister did not stress NEP. He told the Malays the government would continue to help them. But he urged the Malays that they must accept local and foreign investments to stimulate growth," said a Malay minister.

It is this pragmatism that won the day in the government's decision to reduce its involvement in heavy industries which in the words of one minister "are in a mess".

About a dozen heavy industrial projects have accounted for the bulk of the 5.6bn ringgit loss incurred by state-owned companies. Many of these capital intensive projects are saddled with yen loans raised when the was yen half its current value.

Some leading industrial groups have been forced to take radical action. For instance, the management at Proton, which manufacturers Malaysia's national car, has been handed over to a team from Mitsubishi of Japan, which has a 30 per cent stake in the 560m ringgit venture. Proton is currently producing 40,000 cars a year; it should be turning out twice as much. The domestic market is recovering, but not fast enough to give Proton a strong home base.

Exports are vital for survival. The company has so far sold less than 1,000 cars overseas. Britain is a crucial market; the Proton Saga, a sub-compact, will be sold there from next year. The company hopes to sell 10,000 cars a year in the UK within a few years. The previous management had planned to export cars to the US next year, but this is being reviewed.

The government has appointed two respected Chinese industrialists to head Perwaja Steel and Kedah Cement.

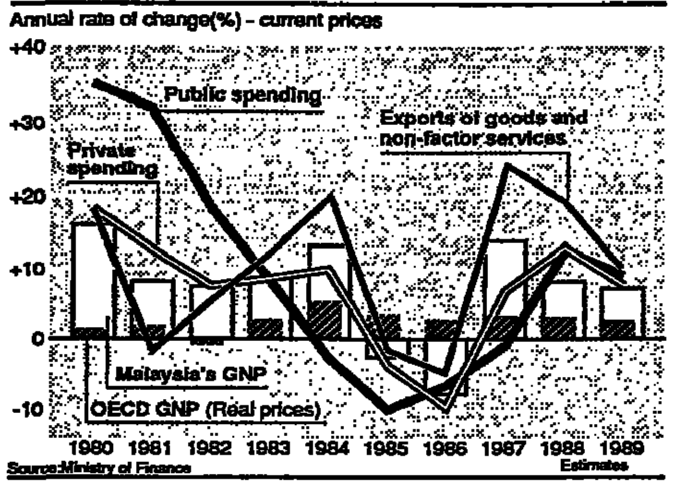
At Kemaman in Trengganu state, a 450m ringgit, 1m tonne hot briquetted iron plant, owned by Perwaja and built by Nippon Steel, lies moth-balled. It has not been able to produce the sponge iron to the required standards and as a result a 400m ringgit steel billet plant nearby has to buy scrap to produce the billets and is now operating at only one third capacity. A cold roll steel mill, forming the second phase of the intergrated project, has been shelved indefinitely.

Datuk Eric Chia, who has been seconded to Perwaja as executive chairman, lives in a converted container at the factory site, when not overseas.

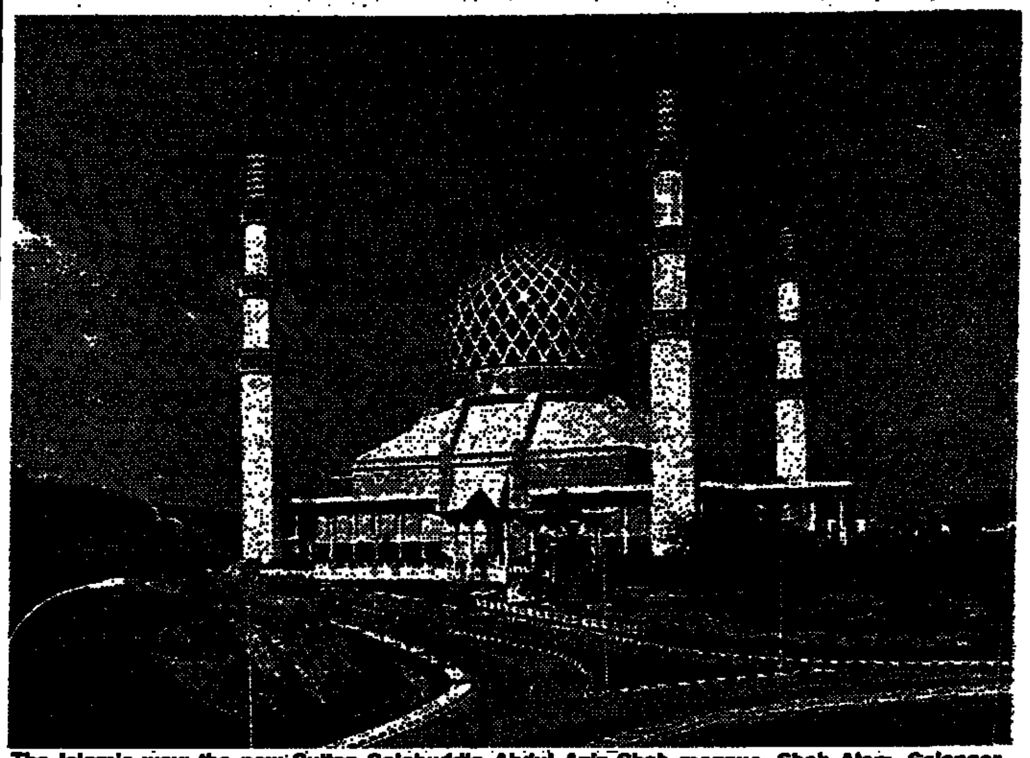
According to Daim Zainuddin, the Finance Minister, the government is looking into possibilities of privatising some of its heavy industrial projects such as cement plants, shipyards and Sabah gas

Malaysia's business cycle

Annual rate of change(%) - current prices



Source: Ministry of Finance



The Islamic way: the new Sultan Salahuddin Abdul Aziz Shah mosque, Shah Alam, Selangor.

TOURISM

Picture postcard pleasures

MALAYSIA HAS plenty to offer for the business traveller looking for a brief break from a gruelling schedule, or the tourist seeking in a couple of weeks to experience a little variety.

Tioman Island, off the east coast of Malaysia, can be reached by air from either Singapore (40 minutes) or Kuala Lumpur (70 minutes), although flights may be heavily booked at weekends and during school holidays. It is also possible to travel by hydrofoil from Mersing. The more adventurous and budget conscious go by converted fishing boats which takes about four hours, also from Mersing.

The island is a delight for those seeking the rarely-realised holiday brochure illustration of almost empty palm-fringed beaches, coral reefs, luscious sunsets and an affable local population. Diversions are few. The swimming is good as is the snorkelling. Water-skiing is prohibited. There is a neat but sometimes viciously narrow nine-hole golf course which places an enormous premium on a capacity to hit the ball straight for 150 yards. Anything off line, especially from the elevated tees, is swallowed by the jungle and the sixth green is a perverse doughnut with a bunker in the centre. During the week the course is scarcely used and the terrace of the clubhouse is an ideal site to watch the sun go down. Clubs are available for hire.

The one hotel on the island is the Tioman Island Resort, a low-level central block with chalets grouped around gardens to the side and rear. It is pleasantly adequate and can arrange boat trips around the island to nearby coves, or to the waterfall. For the budget traveller there are a number of beachside establishments offering basic accommodation at very reasonable prices. If your local video shop still has a copy of South Pacific, rent it. Tioman was the location for Bali Hai.

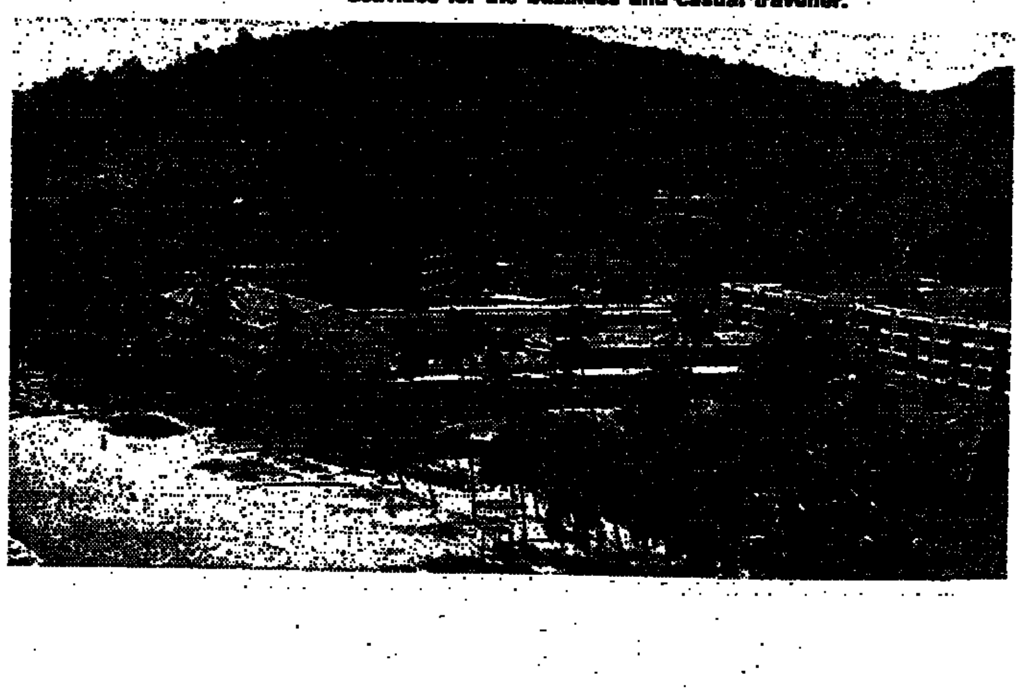
Fraser's Hill, at just under 5,000 feet, is for those who wish to retreat from the heat and humidity, and perhaps get a gentle reminder of the British Empire. The hill station was built in 1910 and is a couple of hours north of Kuala Lumpur.

There is a modern hotel, but it is far more pleasant to stay in one of the British-built bungalows complete with brass fittings, old English china, open log fires in the evening and a resident housekeeper who provides the meals. The bungalows vary in quality and upkeep. A year ago "Rompin" was among the best. After the heat of Kuala Lumpur it is pleasant to be able to walk briskly and there is a very forgiving nine-hole golf course to restore morale after the punishment of Tioman.

The tourism potential of Sabah and Sarawak, the two Malaysian states which share Borneo with Indonesia, is still largely untapped. But if you wish to return to the beach in a different location try the Damai Beach Hotel near Kuching. There are flights from both Kuala Lumpur and Singapore. Until a couple of months ago the hotel could only be reached via the Sarawak River and although the construction of a bridge has opened up the road route it is still preferable to go by water. The trip by river bus or hotel launch takes about 45 minutes.

Roger Matthews

Holiday attractions: intricate Chinese sculpture at Malacca (above) and a luxury hotel at Penang offering a variety of activities for the business and casual traveller.



FINANCIAL TIMES
COMPANIES & MARKETS
Monday November 14 1988

INSIDE

Change of gear at Daimler-Benz

Daimler-Benz, one of the world's most diversified engineering and technology concerns, is expected to add shortly to its already bulging product portfolio by taking control of Messerschmitt-Bölkow-Blohm, the arms and aerospace manufacturer. But, argues Christopher Lorenz in the Business Column, the logic of the enlarged group will remain doubtful for years to come. Page 32

Europe takes another look at asset-backed securities

Any group of financial assets — house mortgages, car loans or private hospital charges — that provides regular cash flows can in theory be converted into a security and sold to investors. Long established in the US, asset-backed securities suffered a sharp setback in Europe after the stock market crash, but now seem to be coming back into favour. Stephen Fidler, Norma Cohen and Dominique Jackson examine the prospects. Page 24

Garbage trucks gear up to pull out of toyland

From fire engines to baby buggies, garbage trucks to children's toys, the conglomerate Hestair is one of the most curious product mixes of any British company. Now, however, Hestair is poised to change shape substantially through a proposed management buy-out of its vehicle engineering division and a build-up of its consumer products interests. It is also contemplating the flotation of its US employment agency operations. Page 28

Korea sets reform timetable

A revised schedule to speed up liberalisation of the South Korean financial markets has been unveiled by the Ministry of Finance. It will offer a number of new opportunities next year to foreign investors interested in South Korean equities, and will mean a limited opening of the stock market to foreigners in 1990. Page 27

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Italian banking learns to live with party games

John Wyles in Rome examines the appointment procedures affecting Italy's banking industry

Two years ago Luigi Coccioli's job as President of the Banco di Napoli, Italy's seventh largest bank, was hanging by a thread. In November 1986, he seemed likely to fall victim to the flashing swords of Italy's two main governing parties, the Christian Democrats and the Socialists as they fought an untidy battle to share out Italy's top banking jobs among their placemen.

In November 1988, Professor Coccioli's tenure still faces imminent political cancellation, but his is by no means the longest death scene in Italian banking.

Some occupants of the top jobs in savings banks have not been reconfirmed for ten years or more, and the presidents of such other notable institutions as San Paolo di Torino, Banco di Sicilia and Monte dei Paschi di Siena are all working on borrowed time.

For the past six months, the coalition government headed by Christian Democrat Ciriaco De Mita has been struggling to reach internal agreement over appointments to these banks and around 30-odd other, lesser, credit institutions.

The exercise — known as "lottizazione" in Italy — resembles the autumn of 1986 except that the Socialist Party, strengthened by subsequent electoral successes, is pressing even harder for a relaxation of the Christian Democrat grip on banking and other jobs subject to political nomination. "How can a party with 35 per cent of the popular vote defend its control of 86 per cent of the top banking jobs?" is the rhetorical Socialist cry.

Appointed for five years in 1983 having previously been president of Istituto San Paolo di Torino , President Coccioli should have been reconfirmed a year later for technical reasons. Having survived a Socialist bid for his job in 1986 he again feels himself being pushed towards the exit despite, he says, having improved the bank's capital position, profitability and international presence. True, his appointment was made on the basis of a party label — Social Democratic — but he says this was more a matter of convenience. "I was regarded as the Bank of Italy's choice and they defended me two years ago."

That the top positions in Italian banking should be subject to such turbulence is not universally regarded as healthy for a system which is suffering no little anxiety about the sharper competititon threatened by the arrival of the European Community's 1992 internal market deadline. "The banking system cannot go on being the object of party games," says Mr Lorenzo Nebi, spokesman for the Republican Party which has not been above making its own bid for banking jobs in the past, but now castigates "the negative weight of the parties on the system."

Prime minister De Mita: struggling to agree bank board changes

The Bank of Italy has a weighty advisory influence in the nominating process of bankers and actually supplies the political parties with a choice of candidates for each job in the savings banks sector — their political suitability is assumed, the Bank is concerned only with their professional attributes.

Given their regional roots and identities, the savings banks are nonetheless more vulnerable to political influence.

The last two years have seen the controversial failures of regional savings banks in Calabria, the Molise and Prato, through a dangerous mix of politics and bad banking.

Filling top banking jobs on the basis of party affiliation has parallels elsewhere in Western Europe, but it is more pervasisive in Italy and more inefficient, because the futures of so many managers are left hanging indefinitely.

The state controls around 90 per cent of the banking sector

Luigi Coccioli claims that a party man heading a business of Banco di Napoli's size is of much less use to the parties than his equivalent at a regional savings bank. "We have frozen recruitment for the past four years so we can't offer jobs, loans of a decent size need more than one signature and there is not much that can be done to enhance any individual's career," he says.

Nevertheless, the issue of political control is becoming inextricably caught up in the debate about the future structure and ownership of Italian banking following the government's adoption of a legislative bill for transforming the public banks and savings banks into joint stock companies. The proposal does not envisage that the state will surrender its control of these banks.

Senator Guido Carli, a past governor of the Bank of Italy, leads a shade of opinion arguing not only for progressive privatisation but also for a more tolerant approach to industrial companies taking control of banks — a prospect which is anathema to the central bank. Senator Carli argues that political behaviour is moving beyond the pale and that the parties are using their present privileges in an attempt "to preserve their electoral positions by acquiring support through the exercise of economic power."

As far as the Christian Democrats and the Socialists are concerned, such strictures seem to be falling on deaf ears. The latest forecast is that they may succeed in settling the most urgent appointments by the end of the month. If not, nothing will be decided until after the Christian Democrat party congress in January.

Thus, Professor Coccioli may still have some time to wait before his fate — reappointment to a second term or reluctant redundancy — is decided.

Should it be the latter, he can draw some comfort from the truth of his observation that "the only rule never broken in the past is that someone with experience is never left to waste."

Bush adds to his legacy of inconsistencies

By Anthony Harris
in Washington

The dollar crisis that greeted President-elect Bush before he even reached Washington is richly deserved; the only trouble is that it could end as soon as the day after tomorrow if the September trade figures are as good as some indicators suggest they could be. It is likely to take more than a week to frighten Mr Bush and the new Congress into tackling the very difficult agenda they face rather than re-fighting the election.

The campaign Mr Bush fought is, of course, the problem, both in the markets and in Congress. Mr Bush's lack of candour went far beyond even normal electioneering standards. His political opponents (who seem to include his Senate majority leader Robert Dole) want to confront him with his inconsistencies and make him squirm. The markets simply wish to know what they should disbelieve.

The three undertakings which were the core of his economic campaign are not only inconsistent, but each is hard to swallow on its own. They are: no defence cuts; a flexible freeze on the total Federal budget; and no tax increases.

There are ambiguities and loopholes in all three, but Mr Bush will be hampered in exploiting them by the fact that he has been a loyal member of the outgoing Administration. It is much easier to make drastic policy changes when you can denounce your predecessor. The most embarrassing inheritance from President Reagan is the defence programme, so that is the logical place to begin. Defence expenditure has been frozen in real terms for two years now, and the official and Congressional projections show its remaining frozen; but in fact this apparent freeze has been achieved by window-dressing.

It is a programme of defence on the instalment plan, and the instalments on the weapons systems now in development will rise rapidly. A freeze in real terms can only be achieved by massive cuts in these programmes, estimated at \$300bn-\$350bn in the next five years. The present Defence Secretary, Frank Carlucci, has been quite open about the fact that unless whole programmes are cancelled, this would mean reducing active defence strength.

On top of this, a large new problem has emerged. The ancient plants that make the nuclear explosives and short-lived triggers for the US deterrent are at present shut down. Massive problems with safety and environmental pollution have been revealed. If they cannot be reopened within, say, a year, America will embark on an accidental form of unilateral disarmament. But the cost of putting them right, which is not at present in any budget, is put as high as \$100bn.

In the light of all this, the rumoured provision of 2 per cent real growth in the budget which President Reagan will present next January — the "lame duck" budget, as it is known — does not look like a sacrificial offering, designed to help Mr Bush show that he is kinder and gentler, though that is the fashionable rumour.

In theory, of course, a flexible freeze could make room for such defence costs by cutting other programmes. But which programmes? Given the inevitable rise in debt servicing costs, and the relentless inflation of medical expenses, the cuts would have to be massive; but eight years of President Reagan have not left very much to cut.

On the other hand, these same advisers seem keen on opening some new exemptions — for personal saving and for industrial investment, and possibly for civilian research. Such cuts would be expensive, and would be against the spirit of the Reagan tax reforms, which aimed for fiscal neutrality; that is the downside of an Administration with no economic ideology.

Resentment over the campaign itself, it is true, will possibly fade quite quickly; name-calling is nothing new in US politics. What will not fade is the struggle for power between the Congress and the Administration, which is an almost permanent feature of US politics. This is normal even when the two sides represent the same political party; but when they do not, even the truce which normally greets a new President, his "honeymoon", may prove to be as shortlived as the Bush bull market.

That is why the flexible freeze is itself generally regarded as unachievable — not a genuine programme, but simply a device to keep up the pressure on Congress controlled by the opposition. "Keeping their feet to the fire" is the Washington cliche for this strategy, and it has nothing to do with warm slippers.

The trouble is that Congress wants to roast Mr Bush's feet in front of a fire of his own promises; and the cliche for that situation is gridlock.

The market is further worried by the fact that the flexible freeze strategy might be inadequate, even if it could be achieved. Even the optimists who advise Mr Bush have limited their claims to the idea that such a freeze would balance the federal Budget by 1995.

In short, Mr Bush is not even intending to stick to the Gramm-Rudman timetable, whose credibility was in any case undermined with the "fix" last year, which combined softer disciplines with deferred payments to produce more manageable sums in the short term, but more difficult ones in the long term.

If defence cannot be stabilised, and other programmes also have built-in growth, then the deficit cannot be tackled without tax increases, however they may be disguised. That is the conclusion of everyone outside the Bush team who has studied the problem, including the bipartisan Economic Commission. The market's problem here is that while on the spending side it finds it difficult to believe that Mr Bush means what he says, it is afraid that on taxes he may try to live up to his adopted Clint Eastwood image.

There are in fact some helpful ambiguities here. Mr Bush has already made it clear that he does not regard charges for health benefits as taxes; and a case can also be made for a further increase in the social security tax, since the system will plunge into heavy deficit about twenty years from now.

US BUDGET GAP (\$bn)

	Gramm-Rudman	CBO baseline*	2% defence increase	Gap
1990	100	136	12	48
1991	64	131	24	91
1992	28	126	36	144
1993	0	121	48	169

* CBO projections are based on an economic growth rate of 2.3 per cent, a trend estimate allowing for a possible recession.

Economic Notebook

Group therapy for pensions

LEAVING aside what Mr Nigel Lawson, the Chancellor of the Exchequer, did or did not say in his now notorious briefing 10 days ago, the possible targeting of pension benefits will be a major issue facing all developed countries in the next few years.

Recent studies by the Organisation for Economic Cooperation and Development and the International Monetary Fund point to a dramatic ageing of populations in the industrialised countries over the coming half century. Both organisations agree that if things are left unchanged the resulting strain on existing pension arrangements could result in fully-fledged national financial crises in some countries.

The irony, in view of the political furore of the past week, is that Britain is relatively better placed than its peers. On the basis solely of demographic trends, the OECD has forecast that the proportion of national income spent on public pensions in Britain would increase to 11.2 per cent by 2040 from 7.7 per cent in 1984.

By contrast, the proportion in Japan would jump about two and a half times to 15.7 per cent. In West Germany, pensions would account for around 31 per cent of national income by 2040 compared with 13.7 per cent in 1984. In Italy, the burden would balloon to nearly 36 per cent from 17 per cent.

The OECD observed that revenues for pension schemes would have to rise in the coming decades "in default of other policy changes, and probably in addition to them." For a typical member country this could mean increases of 80 per cent or more in employers' and employees' contributions from wages and salaries. The IMF had already warned that in some countries the ratio of pension expenditure to GDP could be "heading toward a level which future working generations will judge unacceptable."

Projecting the cost of pensions more than 50 years hence is inevitably a hazardous business and the OECD figures were based on some heroic simplifying assumptions. For example, the organisation assumed that real benefit levels per worker, participation rates in the labour force and the portion of elderly people in receipt of benefits would all stay constant.

The first assumption could prove optimistic if tomorrow's pensioners carry today's rising expectations into later life and demand better benefits. The second and third assumptions could prove too cautious if unemployment falls or the retirement age is raised to reflect labour shortages and the increased fitness of many elderly people in the future.

But the outlook was grim enough for the OECD to commission a major study of private and occupational retirement schemes to seek answers to the question of whether these can relieve the pressure on public pension programmes. Invitations to take part in the study were sent in September to national experts on private pensions in 12 countries including Britain. The OECD plans a conference on the study's findings in the autumn of 1989.

More reliance on private and occupational schemes is the other side of the coin of targeting new public pension benefits on the most needy.

Long before the row about Mr Lawson's briefing, Britain's pension policy had been pointing in this direction. Not only has the Government decided to encourage private sector pensions from this year onwards. In 1985, it cut benefits under the State Earnings Related Pension Scheme, reducing the cost of Serps to the Exchequer to an estimated £13bn at constant 1985 values in 2033 from £25.5bn forecast previously.

In organising its study, the OECD has been careful to stress that it is not a policy making body. It also has expressed some reservations about private pensions, fearing that they promote social inequality. But often in the past, issues that the OECD has raised have become embedded in national policies and influenced a wide variety of its member states through peer group example or pressure.

G7 Priority

Mr Jacob Frenkel, the IMF's charismatic economic counsellor and director of research, was in London on Friday to remind us that peer group pressure was how the Group of Seven major industrial nations have tried to realise their ambitions for coordinating economic policy.

Addressing a meeting organised by the Chicago Mercantile Exchange, Mr Frenkel stressed that currency intervention is not the be-all and end-all of G7 cooperation. It should be an interim stage only in the development of coordination from crisis management into a medium-term programme with which the seven would tackle the problems facing the world economy.

But Mr Frenkel stressed that policies have to be good to make coordination work. No prizes for guessing Mr Frenkel's choice of the most pressing issue: it is the US budget deficit that warrants the highest priority treatment by Mr George Bush, the President-elect.

Peter Norman

THIS WEEK

WEDNESDAY'S US trade figures are expected to dominate financial markets this week. Bad news could further depress an already weakening dollar.

The figures will show the scale of the deficit faced by President-elect George Bush and his administration. The consensus of analysts' forecasts, compiled by MMS International, the financial research company, is for a deficit in September of \$9.5bn on a customs imports basis.

Other US figures include retail sales and industrial production figures for October released tomorrow which will provide a pointer to the strength of economic growth. The consensus is for increases of 0.3 per cent rise and 0.4 per cent, respectively.

There is also a stream of economic statistics in the UK. Given mounting concern about inflation, Friday's retail price index for October is likely to be the highlight. The consensus is for a 0.9 per cent rise — taking the annual inflation rate to 6.3 per cent, after 5.9 per cent in September.

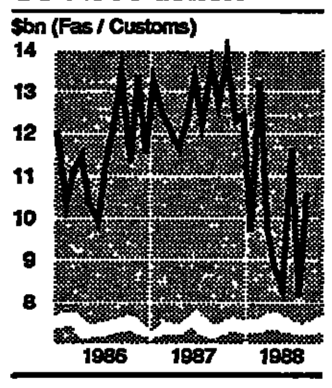
A guide to future price trends could come from average earnings figures for release on Thursday by the Department of Employment. Last month saw the underlying annual rate rise to 9.25 per cent. The consensus is for no change.

Figures for October's producer prices today may also provide an early warning signal on inflation. Output, or factory-gate prices, are expected to show a 0.5 per cent rise while seasonally-adjusted input prices are forecast to show a 0.5 per cent fall.

Money supply figures for October, which include bank and building society lending, are released on Friday by the Bank of England. The consensus is for some slowdown in growth rates with M0, the narrow measure of money, flat and M4, the broad measure, rising 1.6 per cent.

Public sector borrowing requirement figures for October are published on Wednesday and will almost certainly show public revenues remaining strong. The consensus is for a debt repayment of £1.5bn.

US Trade deficit



In Japan, September figures are due today for new private machinery orders. Although the increase may emerge at more than 25 per cent year-on-year, up from 22.2 per cent, it is suspected that growth in capital spending commitments by industry might now have peaked.

Today Organisation for Economic Cooperation and Development Economic Policy Committee meets in Paris. UK provisional retail sales in October (+0.5 per cent).

Tomorrow OECD meeting continues. Japan, wholesale price data for October. UK industrial production for September (flat). US 10-day car sales, 10-year Treasury note settlement.

Wednesday Japan final industrial production for September. US capacity utilisation in October (83.8 per cent), business inventories in September (+0.6 per cent), two-year, five-year Treasury bill announcement.

Thursday UK unemployment figures (37,500 fall), capital spending in manufacturing and service industries in the three months to September. US housing starts, 52-week Treasury bill auction.

INTERNATIONAL CAPITAL MARKETS

FINANCIAL TIMES WRITERS ASSESS THE PAST DEVELOPMENT AND FUTURE PROSPECTS OF ASSET-BACKED SECURITIES

Long road to being accepted in Euromarkets

TWO NEW varieties of *asset-backed securities* launched in the last two weeks – one to finance loans from a Chicago bank and the other to finance shop mortgages for a New England-based retailer – have reopened the debate on the future for these securities in the Euromarkets.

Numerous problems remain which suggest that it will be years and not months until they reach the levels of acceptance already seen in the US.

One reason for the scarcity of asset-backed paper in the Euromarkets is that the financial engineering know-how *behind these complex structures* is concentrated in the US.

Many European and Japanese banks are now making progress in this area but it was a US house, Bankers Trust, which last week successfully brought a US corporate borrower to a market which has been traumatised by the thought of similar industrial credits since the shock of the RJR Nabisco buy-out.

The key to the success of the issue for Stop & Shop was the credit enhancement, secured via a guarantee from Financial Security Assurance and also on the mortgages of Stop & Shop's shop premises. Despite recent worries about event risk, the triple-A credit rating which the guarantee lends the issue and the high absolute yield seemed to appeal to many investors in Europe and in the Far East.

However, the limited availability and readiness of guarantors to back these deals could present difficulties. While many insurance companies seem keen to receive substantial premiums for providing such guarantees, financial insurance remains a small and specialised department in most companies and their capacity to underwrite the structures is also limited. The number of such companies carrying a top credit rating is also small.

If this becomes a problem, financial engineers will probably concentrate on ensuring that the particular construction of the issue can attain a similar rating, shifting the *emphasis from the financial* strength of the guarantor to the structure of the security itself.

However, one sector specialist cautioned that more convoluted structures could mean that investors are losing out.

Many buyers of this type of paper *neither understand nor* question the underlying structures but are persuaded to invest as a result of sophisticated marketing by the banks arranging the issue or for fear of missing the latest investment bandwagon.

While it is often the top *credit ratings* which determine the success of these securities, obtaining one is neither a simple nor swift process. Rating agencies need a wealth of financial and historical data before they can begin to assess the quality of all these distinct assets as collateral.

Furthermore, the structures usually involve the transfer of the assets in question to a shell company and records show that issues via these vehicles consistently trade worse than commercial credits which carry the same rating.

It also seems likely that it will become increasingly difficult to structure issues like Frends, designed to remove loans from Continental Illinois's balance sheet, to the full satisfaction of accountants and regulators. Borrowers contemplating this kind of issue must also consider the economies of the process. Obtaining some form of credit enhancement or securing such a prime rating can be costly as well as time-consuming.

For example, UK retailers wishing to follow the example set by some of their US counterparts by securitising their credit card receivables could find it far cheaper simply to tap the markets directly in their own name.

After a relatively slow start, the sector's investor base has expanded greatly of late and levels of liquidity and depth also appear to be improving.

Dominique Jackson

CP offers attractions to balance sheet shrinkers

FOR ALL the innovation and effort invested in the past 12 months to develop the asset-backed commercial paper market, there is precious little paper outstanding.

For many potential issuers, *the long lead time required to* set up the programmes and the hefty transaction costs, such as back-up bank financing, make asset-backed CP too expensive to be attractive.

Only for those borrowers determined to shrink their balance sheets or expand their *investor base does asset-backed* paper provide a more attractive option.

Merrill Lynch, arranger of many asset-backed CP programmes in the US, will launch a CP programme with a new twist – a currency swap. The programme, likely to total $100m to $150m, is backed by Australia's State of Victoria Housing Bonds.

Financing mortgage assets with CP may prove to be more cost-effective than using bonds or floating-rate notes because the CP can be paid as the mortgages pre-pay.

Nomura recently added a twist to the CP market by rejigging a structure already used to generate floating-rate notes. It set up a *special purpose* company, Express Finance, the sole assets of which are $115.4m of Japanese bank-guaranteed ex-warrant bonds. Express Finance can issue up to $95m in three-month CP.

The problem occurs when *long-term assets are used to* back what is by definition a short-term product. The major credit rating agencies require back-up bank facilities for top-flight ratings.

After all, there may be sufficient cash flow from underlying assets such as mortgages to make quarterly interest payments, but how is the borrower to pay for maturing commercial paper that the investor chooses not to roll over?

The difficulties of putting together structures that will satisfy all the relevant parties were well illustrated by two *deals announced earlier this* year.

Last February, Morgan Guaranty announced a $350m Euro-CP programme for Mortgage Asset Eurosecurities (MAES), a special purpose company set up to fund mortgages generated by CIBC Mortgage. The deal was signed last week, after 8½ months attempting to find a structure that satisfied the painstaking and sometimes *conflicting* requirements of the two main US rating agencies.

Baring Brothers were understood to have run into problems with back-up financing for a programme, which received the blessing of the rating agencies, for United Mortgage Corporation, a special *purpose company set up by* Leamington Spa Building Society. Banks initially baulked at providing funds for such an unfamiliar borrower, essentially a warehouse for mortgages originated by Leamington Spa, and Barings has had to approach the banks a second time.

Crédit Suisse First Boston packaged European receivables of BB-rated Union Carbide into a special purpose company called Hifin. Hifin is backed by a letter of credit from Crédit Suisse, which not only provides the liquidity guarantee *but gives the CP the bank's* A-1+/P-1 commercial paper rating.

Yet, while the structure yields benefits to Union Carbide by removing the receivables from its balance sheet, the Crédit Suisse guarantee means the issue is not in a true sense *securitised*. The claim of investors is ultimately on the Swiss bank rather than the underlying receivables.

Norma Cohen

Mortgage-backed market enters positive period

ON THE FACE of it, the market in UK mortgage-backed securities is booming.

At the turn of the year, mortgage-backed issues were trading at margins 40 basis points or more above interbank rates. *Last week, margins had come* down to the high 20s or less – an unmistakable sign of success in the floating-rate note market. All outstanding issues are trading above issue price.

The investor base – a year ago confined almost exclusively to banks – has broadened significantly.

Now, the £4bn-plus market can count as regular investors, companies investing liquidity, foreign banks hitherto uninvolved in the sterling markets, and institutional and pension fund investors.

A recent £500m issue, aimed *at establishing a market bench*mark, appears to have been absorbed with relative ease.

That said, the recent reduction in margins over Libor has been almost matched in other sectors of the UK floating-rate note market, as vouched by the success of Crédit Suisse First Boston's deal for the Leeds Permanent Building Society last week.

The inverse yield curve in sterling, due to the shortage of long-maturity gilt-edged stock, is encouraging managers of fixed-income funds – fair-weather friends to the floating-rate note market – to place money in floaters.

Yet the real problem for the UK mortgage-backed securities market is not a lack of, or unreliable, demand, but a paucity of supply. The extent to which more favourable borrowing terms can draw new issues into the market is limited, particularly if, as seems likely, the slow pace of new mortgage lending continues.

This means a constraint on the market's growth which could well continue for the next 12 months and possibly beyond.

The largest potential source of new supply is the established mortgage lenders: building societies and commercial banks, which could reduce capital costs by moving loans off their balance sheets.

The growth of the market so far has been due almost entirely to the specialist mortgage lenders.

The limited size of their balance sheets, means these firms – the best known of which are The Mortgage Corporation, Household Mortgage Corporation and National Home Loans – must securitise to survive.

They are now facing a squeeze because, unlike the building societies, they have no access to cheaper retail funds. With mortgage rates at 12¾ per cent and interbank rates at just over 12, there is precious little profit in the business for them at present.

If the screw were turned tighter, they would suffer badly, particularly in a general slowdown of mortgage lending.

This is one factor leading the specialist leaders to offer new products to house-buyers. HMC has one which fixes the rate on *the mortgage for three years*. In this way, they hope to free themselves from being hostage to a simple interest rate relationship, which their competitors can control.

Hence, securitising other types of mortgage products is now one priority in the months ahead.

The thinking of firms like CSFB and Salomon Brothers is also moving along two other tracks: simplify the process of issuing conventional floating-rate paper and expand the investor base further by developing fixed-rate bonds – the first has already been issued – and foreign-currency denominated paper.

Stephen Fidler

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Mory Industries‡◆	50	1992	4	5½	100	Nomura Int.	5.500
OSG Corp.‡◆	30	1992	4	5½	100	New Japan Secs.	5.500
Stop & Shop Fin.(b)◆	200	1996	8	10⅛	101⅝	Bankers Trust Int.	9.822
Health Images§◆	15	1998	10	6½	100	Chandler Partnership	6.500
Hitachi C'strn. Mach.‡	100	1992	4	(5)	100	Nomura Int.	★
Portugal(f)‡◆	700	1993	5	5bp	100	CSFB	
CANADIAN DOLLARS							
PKbanken◆	120	1989	1	10¼	100¾	Banque Paribas	9.429
AUSTRALIAN DOLLARS							
Unilever Cap.Corp.◆	100	1993	5	13	102	Deutsche Bk Cap.Mkts	12.439
Royal Trust Corp.◆	75	1993	5	13⅛	101¾	Wood Gundy	13.128
Sth Australia Gov.Fin.◆	100	1994	6	0	55⅞	Hambros Bank	10.858
State Bk New Sth Wales◆	100	1993	5	13⅞	102	CSFB	13.302
CIBC Australia◆	90	1990	2	14⅞	101½	Salomon Brothers	13.718
NordLB Luxembourg◆	50	1991	3	14	101¼	NordLB	13.256
Deutsche Bank Fin.(g)◆	100	1995	6½	12¼	99¼	Deutsche Bk Cap.Mkts	12.388
D-MARKS							
Nichirei Finance★★◆	60	1993	5	5⅞	101⅞	Bank of Tokyo	5.429
WestLB Int.	100	1994	5	5⅞	100¼	WestLB	5.317
SWISS FRANCS							
American Health (a)§◆	50	1998	-	7½	100	S.G. Warburg Soditic	7.500
Osaka Organic Chem.★★§◆	30	1993	-	½	100	J.H. Schroder Bank	0.500
Nippon Carbide Ind.★★§◆	50	1993	-	½	100	Bank Leu	0.500
Storebrand Finance★★◆	125	1991	-	4½	100½	Shearson L'man Hutton	4.319
Provinsbanken◆	125	1993	-	4¼	101½	UBS	4.409
IC Industries★★◆	150	1993	-	4¾	100¾	UBS	4.579
Prov. of Newfoundland◆	150	2003	-	5	100	UBS	5.000
Hidroelectrica Esp.◆	250	1998	-	5	101½	Credit Suisse	4.808
Sunx Ltd.★★◆	30	1993	-	4⅝	100⅛	Fuji Bank (Schweiz)	4.598
STERLING							
Leeds Permanent(d)‡◆	135	1998	10	⅛	100	CSFB	-
Blue Circle◆	150	2013	25	10¾	98¼	Baring Brothers	10.838
ECUs							
European Community◆	100	1991	3	7⅜	101⅛	CSFB	6.947
European Community◆	100	1992	4	7⅜	101¼	CSFB	7.006
European Community◆	150	1993	5	7½	101⅜	CSFB	7.103
Creditanstalt◆	100	1993	5	7¾	101⅜	Mitsubishi Finance	7.350
Toyota Motor Credit◆	150	1993	5	7½	101⅞	UBS (Secs)	7.042
YEN							
Christiania Bank◆	5bn	1998	5	7½	114.80	Nikko Secs (Europe)	4.161
Nordic Investment Bank◆	30bn	1994	4	4⅞	101½	IBJ Int.	4.533
Alliance & Leicester◆	10bn	1995	6¼	(c)	101⅛	Mitsubishi Trust Int.	-
C. Itoh Fin.(Europe)‡◆	5.5bn	1993	5	(e)	100.10	Dai-Ichi Europe	-
Dev. Bank of Turkey★★◆	10bn	1995	8	6.3	100	Yamaichi Secs.	6.399
GUILDERS							
EIB◆	150	1998	10	6¾	101⅛	Amro Bank	6.046
Nichirei Finance★★◆	50	1993	5	6¼	100¼	ABN	6.072
Rabobank Nederland◆	200	1995	7	6¼	101	Rabobank Nederland	6.070
Verenigd Bezit VNU★★◆	100	1993	5	6	101⅛	Bank Mees & Hope	5.735

★Not yet priced. ★★Private placement. ‡With equity warrants. §Convertible. ◆Final terms. a) Dual-currency - call after 5 years at SFr issue price or prevailing $ exchange rate, whichever is higher. Bonds not converted redeemed at $4,600. Fixed exchange rate SFr1.475. Maximum amount $FR60m. b) Secured by mortgages. c) Step-up coupon until March 1992 2%, 6% remainder. d) ⅛ over Libor. e) 5 year yen/yen interest swap rate (bid side) minus 30bp. f) 5bp over 6m Libor. g) Fungible with A$50m issue launched end April 1988. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Bush enters a friendless world

LESS THAN a week after becoming the most powerful man in the world, Mr George Bush may be feeling strangely impotent and friendless as he returns from his fishing holiday in Florida this morning.

With US equity investors adding their voices on Friday to the bond and currency markets' catcalls against the incoming Bush administration, the President Elect could be forgiven for wondering what on earth he had done to deserve such churlish treatment from his erstwhile friends on Wall Street.

A bill of indictment could easily be drawn up, divided perhaps into three broad sections: promises, policies and power. Despite the vacuousness of the election campaign, there have been rash promises aplenty, ranging from "read my lips, no new taxes" to Mr Bush's vow to "make America a kinder and gentler nation."

This innocent-sounding phrase, which was significantly the only one of his campaign slogans that Mr Bush chose to repeat in his victory speech on Tuesday night, is already being seized upon by the Democrats as the watchword for an open season of spending programmes in child-care, health, housing, education, the environment and drug abuse.

Some of these programmes are desperately needed after more than a decade of social decay, as anyone who has been to New York recently will realise. But they are hardly going to be welcomed by the financial markets, especially when coupled with Mr Bush's commitments on taxes and military spending.

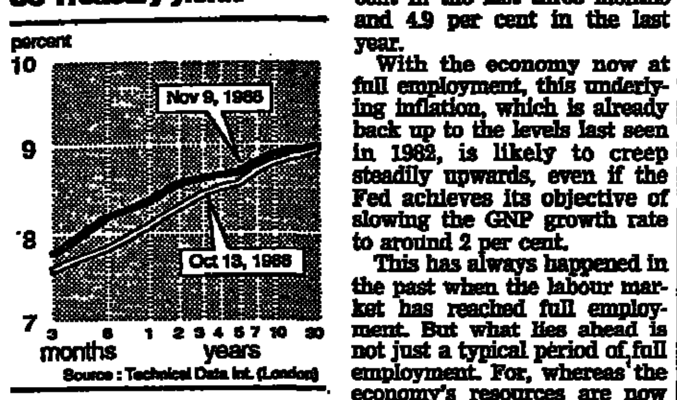
As Mr David Hale of Kemper Financial Services observes, "the new spending agenda certainly won't create a kinder and gentler bond market."

More serious than mere promises, however, have been the risky policy actions taken in the last few months to ensure a Republican victory regardless of the long-term costs. The most important of these was the international dollar support operation which we described three months ago as the Dow-Nikkei-Bush standard.

As many analysts noted in the summer, the decision to let the dollar rise to unsustainable levels on the back of perverse and short-lived bullish sentiment was ominously similar to the attempt last year to hold up the dollar's value by intervention – a Canute-like action which led directly to the crash of Black Monday.

Of course, history will only see the pre-election policies in this unflattering light if it turns out that the summer's surge in the dollar actually was a departure from economic reality. Despite the 10 per cent collapse of the US currency in the past month, it is not yet possible to be conclusive on this point.

US Treasury yields



Many Wall Street analysts believe that the US trade deficit would stay on a clearly declining trend, even if the dollar remained above Y130. Indeed, the consensus forecast for Thursday's trade deficit is "only" $10.5bn on the traditional cost insurance freight (c-if) basis, compared with $12.2bn the previous month, and Salomon Brothers, for instance, believes the deficit will be as low as $9.8bn.

But even if the trade deficits did return to their downward trend, the dollar defence policy pursued before the election and now seemingly abandoned raises another, even more troubling, question. Are the new president and his advisers, led by Mr James Baker, the new Secretary of State, becoming over-confident about their power to control the markets and influence economic events?

This seemingly abstract question has a practical application. During the past few years, Mr Baker and the people around him have been extremely successful in steering the US economy along a narrow channel between the Scylla of inflation and the Charybdis of recession.

The danger now is that they will become overconfident at the precise moment when the channel is at its narrowest and the perils are greatest. That moment is approaching because incipient inflation is starting to develop in the US economy and spreading to the labour market.

This was the clear message of the recent employment figures, which have shown non-farm compensation advancing at annualised rates of 5.7 per cent in the last three months and 4.9 per cent in the last year.

With the economy now at full employment, this underlying inflation, which is already back up to the levels last seen in 1982, is likely to creep steadily upwards, even if the Fed achieves its objective of slowing the GNP growth rate to around 2 per cent.

This has always happened in the past when the labour market has reached full employment. But what lies ahead is not just a typical period of full employment. For, whereas the economy's resources are now almost fully utilised, their output comes nowhere near satisfying the US economy's aggregate demand.

That is essentially the meaning of the huge budget and trade deficits which eventually have to be closed. A few years ago, a central banker would have been sacked for suggesting, as Fed governors regularly do today, that he could fine tune his way out of such dilemmas by targeting a GNP growth rate which was high enough to sustain employment, but just low enough to prevent inflation taking off.

In those days, of course, memories were still fresh of the stagflation which had its roots in a similar period of long-term economic overheating in the US in late 1960s. We all know today that the monetarists were wrong in their central thesis.

Inattention to the money supply was certainly not the main cause of the inflation of the 1970s. Nevertheless, there was a germ of truth in their paranoid theories about fine tuning and their generalised fears about the inflationary bias in government economic power. In the next few years we may learn again how big a germ that was.

● Merrill Lynch International will begin market making in Japanese equity warrants today, becoming the first firm to enter that volatile sector since the stock market crash of October 1987, Norma Cohen writes.

The firm will begin by making markets in 200 issues, placing it at about the middle of the group of nine existing market makers in that sector. Merrill said it has made a "significant investment" in new dealing and risk management.

Anatole Kaletsky

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	8.31	8.25	8.06	8.27	6.27
Three-month Treasury bills	7.90	7.45	7.32	7.53	5.14
Six-month Treasury Bills	8.21	7.63	7.40	8.04	5.74
Three-month prime CDs	8.65	8.46	8.33	8.51	6.77
30-day Commercial Paper	8.31	8.17	8.06	8.20	6.57
90-day Commercial Paper	8.45	8.37	8.06	8.40	6.65

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	98⅜	-⅜	8.96	8.84	8.67
20-year Treasury	103⅞	-¼	8.96	8.88	8.89
30-year Treasury	100⅝	-1⅛	9.04	8.90	8.90

Source: Salomon Bros (estimates).

Money supply: In the week ended October 31, M1 rose $3.6bn to $784.4bn

NRI TOKYO BOND INDEX

December 1983 = 100	10/11/88	Average yield (%)	Last week	12 wks ago	26 wks ago
	PERFORMANCE INDEX				
Overall	147.19	4.55	146.83	143.33	144.90
Government Bonds	148.44	4.20	147.95	143.53	144.94
Municipal Bonds	148.55	4.94	148.10	145.26	145.37
Govt.-guaranteed Bonds	149.65	4.96	149.29	146.84	146.84
Bank Debentures	140.31	4.49	140.21	137.26	137.71
Corporate Bonds	146.61	5.41	146.46	144.26	143.47
Yen-denom. Foreign Bonds	149.59	6.26	149.40	146.90	144.27
Government 10-year†	4.86	–	4.89	5.23	4.94

† Estimated par yield

Source: Nomura Research Institute

UK GILTS

Inflation can be a small problem...

THOSE WITH faith in the predictive power of markets would be pleased with the state of the gilt-edged securities market. In the week before the Bank of England produced its latest quarterly review of the UK economy, the gilts market decided that inflation was a problem after all.

With the release on last Thursday of the Bank's November Bulletin, it found out that the Bank thinks so too. By comparison with the Treasury's view of the world, as displayed in the Autumn Statement, the Bank is relatively downbeat.

Where the Treasury sees a seamless and almost painless slowing down of the rate of growth in the UK, the Bank sees risks. It appears to subscribe to the view that everything has to go right for the economy to behave in the way the Treasury foresees it turning out.

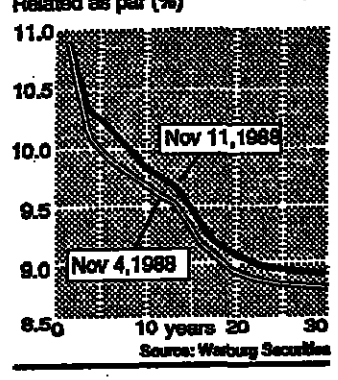
Significantly, but not unexpectedly, given that the Bank is after all a central bank, inflation is the key worry in Threadneedle Street. There are, however, differences between the Bank and the Treasury.

The Bank says the UK's rate of underlying inflation has risen and is now above 5 per cent; the Treasury says it has remained stable around 4¼ to 4¾ per cent for many years. If the starting point is higher then maybe the ending point is too.

The Treasury said the Government's actuary, for the purpose of forecasting National Insurance contributions, believes average earnings will rise by 8¾ per cent this year and moderate to 7½ per cent next year. The Bank does not, and the risks are all one way and that is upwards.

UK gilts yields

Relative as per (%)



In its general assessment of the economy, the Bank made it clear that it was uneasily content with the current level of interest rates. It thinks they will work to slow consumers' expenditure while leaving investment spending relatively unscathed, but – and there are always buts with the Bank – it could not be sure.

In any event, the market was probably right to conclude that there was no hint of interest rates rising. The line was that the 12 per cent bank base rate was here to stay for some time. There was no suggestion that rates could fall in the near term. That suggests that if money markets are looking for a New Year's cut in rates, as some were suggesting on Friday, then they might do well to think again.

In its assessment, the Bank said that the optimistic scenario for inflation (and by extension interest rate falls) was: some narrowing in profit margins, smaller pay rises, and exchange rate stability.

The market should be clear on one thing: there is nothing in the bulletin to suggest that the Bank is at all confident that any of these preconditions, with the exception of the exchange rate over which it has some say, exists. The exchange rate still matters and if it falters badly rates will rise.

The Bank is particularly bearish on pay settlements. In its economic commentary it points to the rise in underlying whole economy earnings in the year to August to 9¼ per cent and explains it by reference to the tightening in the labour market over the autumn, considerable skill shortages, and the deterioration in inflation.

Most of the increase in earnings over that 12-month period was due, it said, to higher settlements, not to overtime and bonuses. This "wage drift" has had a minimal impact on earnings; overtime accounted for about a ¼ to ⅓ a percentage point of whole economy earnings growth in the third quarter.

● Mr Cecil Parkinson, Energy Secretary, appears to have developed a liking for economics. At the Institute of Directors last week, he devoted his whole address to the British economy. As Mr Lawson knows, the road between the office of Energy Secretary and Chancellor is well worn.

Mr Parkinson said something of interest to the gilts market, apropos the latest forecast for a £10bn debt repayment this year.

"I am sure I would be forgiven for... telling you a true story about a conversation that took place in a rather special room in No 10 Downing Street, when somebody promoted the notion that another 17 years of repayment of the national debt at that rate would totally eliminate the national debt. And the Prime Minister's eyes gleamed and she said: "Only 17 years."

Simon Holberton

EUROMARKET TURNOVER ($m)

	Straights	Conv	FRN	Other
Primary Market				
US$	1,749.6	0.0	0.0	7,303.3
Prev	3,060.8	0.0	204.3	6,407.0
Other	2,923.1	28.2	334.5	2,528.1
Prev	3,966.0	33.1	503.0	1,115.9
Secondary Market				
US$	14,604.5	769.1	4,176.4	5,784.2
Prev	16,385.5	1,018.0	4,363.3	7,289.6
Other	10,318.2	1,066.9	5,911.9	32,632.6
Prev	16,281.3	1,284.6	4,666.5	24,696.2
	Cedel	Euro-clear		Total
US$	18,271.4	24,514.5		34,585.9
Prev	11,443.7	29,555.5		40,942.2
Other	25,016.5	26,716.4		47,726.9
Prev	23,335.2	26,734.2		50,469.4

Week to November 11, 1988

Source: AIBD

FT/AIBD INTERNATIONAL BOND SERVICE

[illegible]

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions. FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon. CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price. WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on NOV 11

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Milan SE smartens up for latest offering

By Norma Cohen

INTERNATIONAL investors' fears about the settlements capacity of the Milan Stock Exchange have prompted Italy to design its latest privatisation so that it can be settled through two international clearers, Euroclear and Cedel.

Mediobanca, Italy's mostly state-owned merchant bank, is to be one of the largest offerings of Euro-equities since the stock market crash last year.

The international reputation of the Milan Stock Exchange, where the shares will trade, was severely damaged in 1986 after a serious backlog of deals went unsettled for months. While the Italian Government has gone a long way toward solving the settlements problem via use of Monte Titoli, the clearing house, Crédit Suisse First Boston, which is adviser on the offering, urged that international share purchases be able to be cleared through other agencies.

Shares in Mediobanca will be sold to Italian and international investors at a discount of at least 4 per cent from current market value.

Market value will be computed as the average of the price on the 15 business days before the sale, which takes place on November 21 to November 25. The sale will take place in two tranches, with roughly 40 per cent of the shares to be sold to existing shareholders in Italy and the remainder to be sold in Italy and abroad through five investment banks.

The 27.13m shares to be sold to the public – representing 50 per cent of Mediobanca's total shares – are now owned by three state-owned banks: Banca Commerciale Italiana, Credito Italiano and Banco di Roma. The banks' combined stake will be cut to 25 per cent.

In addition, Mediobanca's "private shareholders," who include Italian industrialists such as Mr Gianni Agnelli of Fiat, Mr Leopoldo Pirelli of Pirelli Tyre and Mr Raul Gardini of Ferruzzi, will purchase additional shares.

Their stake will be increased from 13.6 per cent to 25 per cent.

Korea sets timetable for financial markets reform

By Maggie Ford in Seoul

A REVISED schedule to speed up liberalisation of the South Korean financial markets has been unveiled by the Ministry of Finance.

Although not yet final, it offers a number of new opportunities next year to foreign investors interested in South Korean equities, and proposes a limited opening of the stock market to foreigners in 1990.

Under the proposal, the Government will lift restrictions on the issuing by South Korean companies of convertible Eurobonds. This will enable companies to repatriate funds raised provided they are used to pay off bank debt. Companies were previously required to invest foreign funds abroad, for example, in building factories, which reduce the number of firms which were interested in issuing bonds.

The Ministry of Finance is planning to broaden the existing opportunities for foreigners to invest in the stock market. It will allow new tranches of the existing closed-end funds listed on the New York and London exchanges next year. A third fund, based in the Pacific and listed perhaps on the Hong Kong Stock Exchange will also be authorised.

Three new unit trusts will be set up in the first quarter of 1989, with a total value of between $90m and $100m.

The ministry says it will allow some direct trading by foreigners on the stock market by 1991. Analysts believe the ministry may permit trading in a minority percentage of certain named companies' shares.

The ministry is also considering allowing foreigners to convert their Eurobonds into shares which might then be traded, but no details were revealed.

The proposals also include the possibility of foreign securities firms upgrading their offices from representative to branch status. The permitted ceiling on foreign investment in local securities firms may also be raised.

South Korean financial analysts believe that the domestic capital market should not be fully open to foreign investors until a system requiring real name transactions in financial and property deals along with a modern tax system is implemented.

They also feel that the liberalisation of interest rates and the establishment of a modern money market is a prerequisite for a fairly run financial system.

State stake in Finnair diluted

By Olli Virtanen in Helsinki

FINNAIR, the Finnish national airline, will raise FM255m ($60.7m) in a share issue which will dilute the state's stake from 76 per cent to 70 per cent and pave the way for a listing on the Helsinki Stock Exchange, possibly next year.

The airline will be Finland's third state-controlled company to enter the stock market after Valmet, the metal industry company and Outokumpu, the base metals group, which were listed last month.

The FM30m increase in Finnair's share capital to FM246.4m will be carried out by a one-for-ten rights issue priced at FM40 a share combined with a targeted issue of 1.3m shares offered to the general public at FM55 apiece. The public offering includes 150,000 shares reserved for Finnair personnel.

In addition to the state, Finnair's shareholders currently include Finnish insurance companies (6 per cent), banks (4.5 per cent), state controlled companies (13 per cent) and private individuals (0.4 per cent).

The total number of shareholders amounts to 1,500 and the company's shares are currently traded on the brokers' list operated at the HSE. The latest trading price on the list was FM75.

According to HSE rules, no single shareholder can control more than 80 per cent of a company quoted on the main list of the exchange. This will probably mean that Neste, the state owned energy company, which holds 11 per cent of Finnair's share capital, will have to dilute its holding in order to bring the state's control below the required limit.

Finnair will use the proceeds of the issues to buy more aircraft, build a new head office and a service centre at the Helsinki-Vantaa airport.

Strong Premier sees further growth

By Jim Jones in Johannesburg

PREMIER GROUP, the diversified South African food and consumer products group, unveiled a sharp increase in pre-tax profits in the first half. The improvement was recorded on a 26 per cent rise in turnover, and the group is predicting further growth during the remainder of the year.

First half pre-tax profits were R106.2m ($44.2m) against R88.6m on sales of R1.92bn against R1.52bn last time. The interim dividend was 60 cents against 50 cents.

For the whole of last year, the pre-tax profit was R216.3m on turnover of R3.2bn. Mr Peter Wrighton, chairman, said trading margins of the wheat milling and baking industries have not kept pace with inflation, but all the group's consumer, food and pharmaceutical interests performed well and expected a further satisfactory performance in the second half.

Premier, which includes South African Breweries, is controlled by Anglo American Corporation.

More cash sought for Daewoo unit rescue

By Maggie Ford in Seoul

A RESCUE plan for Daewoo Shipbuilding and Heavy Machinery, the indebted South Korean company, may require a change in the law restricting cross-holdings by big businesses in subsidiaries.

Negotiations between the Government and Mr Kim Woo Chong, chairman of the Daewoo Group, have not yet been concluded. Mr Kim is asking the Government to authorise a Won 200bn ($288.6m) capital increase by the state-owned Korea Development Bank, taking its stake in the subsidiary from 33 to 49 per cent, which Mr Kim says was guaranteed years ago in a rescue for another shipyard.

He has proposed that the Daewoo Group and the KDB jointly invest a further Won 300bn each in the unit so that it can end its dependence on shipbuilding by diversifying into other industries.

The Government, conscious of criticism of favouritism in past rescue plans, is believed to have requested Daewoo to sell off profit-making sections of the group such as the Hilton Hotel, a finance company and a chemicals subsidiary in order to reduce the shipbuilding subsidiary's debt, believed to have reached $2bn.

For the past few years government policy has been to reduce cross holdings within large conglomerates by forcing companies to list on the stock exchange. The Daewoo proposal will therefore require a change in the law if it is accepted. The Daewoo subsidiary is a private company.

Foreign exposure to the loss-making shipbuilder is believed to total around $30m, all guaranteed by the state-owned Korea Export Import Bank. Local debts have accumulated due to the company's takeover of an ailing state-owned shipbuilder in 1979, along with its failure to recoup payment from US Lines, the American shipping company which went bankrupt in 1986.

The company has a full order book, but many of its contracts are believed to be at unprofitable prices.

KKR agrees to Nabisco committee's buy-out rules

By Our Financial Staff

KOHLBERG KRAVIS Roberts, the US leveraged buy-out firm, said it agreed to certain rules and procedures set by RJR Nabisco's special committee for the submission of proposals to acquire the US food and tobacco conglomerate.

It added that it had extended its $90 per share takeover offer to December 5, and said that no significant number of RJR shares had been tendered to it under its offer. The new procedures require all acquisition proposals to be submitted to RJR Nabisco on November 18.

Kohlberg Kravis said its offer was originally due to expire on November 25. It said the extension of the bid reflects the imposition of the board rules earlier this week.

Shearson Lehman Hutton, which has made a rival bid for RJR alongside senior RJR management, also said it was willing to comply with the procedures set down by the special committee.

Gordon Cramb adds from Tokyo: Mitsubishi Corporation, Japan's biggest trading house, has denied speculation in New York that it was planning to enter the bidding contest for RJR Nabisco.

Analysts also doubted that, if a Japanese bidder did emerge, it would be from the ranks of the country's general traders, which dominate commercial activity in Japan but have a conservative reputation and, in expanding abroad, have made only modest acquisitions.

"We are not involved in this takeover," a Mitsubishi official said in Tokyo in response to market rumours that it was preparing an offer of $106 per share for the US tobacco and foods group.

Hero plans corporate reshape

By John Wicks in Zurich

HERO, the Swiss-owned foodstuffs concern, has proposed a corporate reorganisation in view of its growing activities abroad. This foresees the conversion of parent company Hero Conserven Lenzburg into a financial holding unit named Hero.

This new company, which will remain in the town of Lenzburg, will no longer have an operational function. Its subsidiaries, Traitafina and Hero Fleischwaren Lenzburg, will be merged into a single company, which will then assume the name Hero Conserven Lenzburg and operate the group's Swiss plants in Lenzburgand Frauenfeld.

The parent company, which will ask shareholders for approval of its plans at an extraordinary general meeting to be held on November 29, says its combined function as a holding and operating company was increasingly unsuitable in view of the growth of foreign subsidiaries and its intentions to expand abroad, "particularly by acquisitions within the European Community."

The disadvantages, a letter to shareholders explains, are to be found in the fields of organisation, management, administration, finances and taxes.

At the same time, share capital of the Jersey company Hero Finance is to be doubled to £25m ($45.3m). The St Helier affiliate is to concentrate on supplying funds for the long-term financing of foreign subsidiaries.

Turkey broadens bond market to cut inflation

By Jim Bodgener in Ankara

TURKEY is planning to introduce medium-term to long-term floating rate domestic bonds to cut down on the inflationary impact of its heavy domestic borrowing, according to a senior official at the weekend. The bonds will be indexed to inflation, which reached 86.4 per cent in the year to the end of October.

The Government first started auctions of bonds along with open market operations in 1985. However, at present these only have short-term maturities in line with market preferences.

Rolling over the bonds is a heavy burden for a government already hard-pressed by an exceptionally severe external debt servicing load of $7.3bn in 1987.

Government bonds and bills accounted for TL2,100bn ($1.23bn) of the total TL3,900bn paid out in interest in the first half of the year.

The bonds will be indexed against inflation rates on six monthly averages. To overcome market preferences for near-term instruments, the Turkish treasury and central bank are also planning to offer incentives for the new floating rate bonds, probably by easing the mandatory liquidity ratios of banks that take them up, said the official.

Profits jump 29% at Air New Zealand

By Dai Hayward in Wellington

AIR NEW ZEALAND, which is being offered for sale by the New Zealand Government, lifted first-half profit by 29 per cent to NZ$25.5m (US$16.5m).

This points to an operating profit for the full year of more than NZ$75m, which would be ahead of predictions. Bids for the airline close this week.

The increased profit for the half year was achieved despite fierce competition from Ansett NZ on domestic routes. Demand on the airline's international routes has increased but there has been a decline in domestic travel.

UK COMPANY NEWS

Mountleigh could be facing outright bid by Italian interests

By Paul Cheeseright, Property Correspondent

MOUNTLEIGH, the property company built up by Mr Tony Clegg, is likely this week to face a takeover bid from Italian financial interests represented by Mr Florio Fiorini and Mr Giancarlo Parretti.

Mr Parretti has been putting intense pressure on Mountleigh for the last three weeks to sell Galerias Preciados, the loss-making Sapnish department store chain it bought a year ago.

Mr Fiorini, through SASEA Holding, his Geneva-based company, has recently bought a package of London properties from Mountleigh and announced last week that it would control over 7 per cent of Mountleigh equity by the end of the year.

This weekend Mr Parretti has made it clear to Mountleigh that he is prepared to pay between £300m and £350m for Galerias Preciados, or about double the amount Mountleigh paid in the first place.

In the event of this offer being unacceptable, Mountleigh has been informed, then it is likely that a fullscale bid would be made for the whole of the Mountleigh equity.

Any such bid would be contested by Mr John Duggan, the chief executive installed by Mr Clegg last month, unless the price was pitched at an oputrageously high level. Such a price would have to be in the range of 300p a share, compared with last Friday's closing market price of 174p.

These moves follow repeated denials from Mountleigh that any talks were in progress about Galerias Preciados. The first direct contact from the Parretti interests was apparently last Thursday evening.

But the moves come at a delicate time for the company. Mr Duggan has been engaged on an extensive exercise to reduce borrowings, while Mr Clegg apparently acting unilaterally had been engaged in talks to take over Wembley. Mr Duggan is said to have put his foot down over price.

Aberfoyle improvement

First half pre-tax profits at Aberfoyle Holdings improved from £898,000 to £929,000. The increase was largely due to £144,000 interest received compared with charges of £31,000.

Turnover for the six months to June 30 rose to £3.84m (£3.44m). Earnings were 1.2p (1.22p) per 8p share, but there is no interim dividend due to continued problems over remittance status of the subsidiaries in Zimbabwe.

Somic surges to £90,000 midway

Despite a lower than forecast turnover, margins were maintained at Somic, kraft paper spinner and weaver, with profits ahead in the six months to September 30.

The taxable surplus rose to £90,361 (£64,442) on turnover virtually static at £1.64m.

Trading profit was lifted to £57,593 (£31,454). Earnings worked out at 2.937p (2.094p). The interim dividend is raised to 1p (0.75p).

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- ASW Hldgs., BOC Group, Cater Allen Hldgs., Fairbriar, Fleming Far Eastern Inv., Honda Motor, Isopad International, Lilley (F J C), London International Group, Marshalls Halifax, Schroder Money Fund, Stratton Inv. Trust, Unilever.

Finals- F & C Eurotrust, Grancor (U.K.), Tubular Exhibition Grp., Wardle Storeys.

FUTURE DATES

Interims-	
Brewmaker	Nov. 16
Broad Street Group	Nov. 23
Chamberlin & Hill	Nov. 28
Chancery	Nov. 24
Govett American Endv. Fd.	Nov. 21
Magnet	Nov. 23
Marling Inds.	Dec. 2
Meyer International	Nov. 15
Rothmans International	Nov. 24
UPL Group	Nov. 18
Vernon International Grp.	Nov. 28
Finals-	
Diploma	Nov. 21
Kleeneze Hldgs.	Dec. 13
MEPC	Dec. 1
Shani Group	Nov. 21
Whampton & Dudley Brews.	Dec. 12

Lord Young surprised by advice on Elders bid

By Lisa Wood

LORD YOUNG, the Trade and Industry Secretary, was surprised when Sir Gordon Borrie, the Director General of Fair Trading, advised him to refer Elders IXL's £1.6bn bid for Scottish & Newcastle to the Monopolies and Mergers Commission, his department confirmed yesterday.

Lord Young announced on Thursday his decision to refer the bid to the MMC. This was despite little geographical overlap between the two companies and a combined market share of the beer market of less than 25 per cent.

Elders provoked a row on Thursday after it took its stake in S&N from 14.1 per cent to 23.6 per cent in a short period after the MMC reference was announced, and, prior to making normal undertakings that it would not increase its stake.

S&N met the DTI on Friday to press its demands that these deals should be unscrambled. The DTI, which had first said it could not, and then it would not unscramble the deals, is looking at the matter again.

A DTI spokeswoman said Lord Young was not an expert on the brewing industry and had understood Sir Gordon's recommendation when it was explained in the context of an existing MMC inquiry into the industry.

This major inquiry, which reports in February, is looking at the system of tied pubs whereby the majority of brewers own pubs in which their brands are sold. A merged S&N and Courage, owned by Elders, would have created one of the largest blocks of tied houses in the UK.

Lord Young, in an interview published in The Sunday Times yesterday, said he had thought the Elders' bid would be waved through and was *surprised when Sir Gordon* advised him to refer it.

The Department of Trade and Industry later denied that Lord Young's statement suggested some confusion over his merger policy, on which he gave a detailed statement recently.

Looking to improve stock market rating

Vanessa Houlder on Hestair's latest moves which mean another change in profile

WHEN A company markets 'Webster the Spider' at the same time as temporary copy typists, and manufactures baby buggies as well as garbage trucks, it is tempting to assume it is managed by a maverick with a decidedly whimsical sense of humour.

Yet for the ex-management consultants who have built up Hestair since the early 1970s, it merely exemplifies the virtues of the mini-conglomerate. This motley spread of interests that includes toys, nursery products, stationery, vehicles and employment agencies, have, with varying degrees of success, helped steady the company when it has hit turbulent markets in the last ten years.

Now Hestair is poised to change its profile. It is on the verge of narrowing its focus from three divisions to two, through a proposed management buyout of its vehicle engineering division. It is also contemplating the flotation of its US employment agency interests and a build-up of its consumer products interests.

If so, it will be just the latest upheavals in a company that has David Hargreaves, a management consultant, took over the company, then a loss-making engineer. In a rash of *acquisitions, Mr Hargreaves* transformed it into a fast-moving and fashionable mini-conglomerate until in 1978, a number of its markets collapsed, tipping it abruptly into loss.

No sooner had it recovered than in 1983 it bid £4m for Duple International, a coach-building company. The deal proved disastrous. The underlying problems in the acquisition were exacerbated by the turmoil inflicted on the market for Hestair's specialised vehicles by deregulation, privatisation and the cancellation of bus grants. *Once again*, the company went, for a short time, into loss.

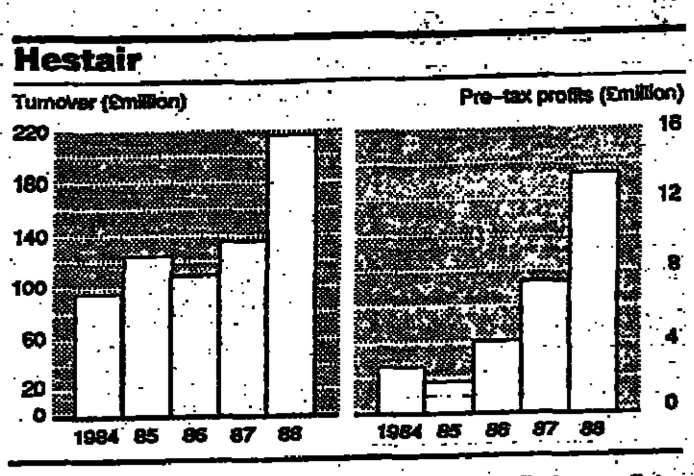
Although there have been no further shocks, some rapid and far reaching changes have taken place since then. Pre-tax *profits lurched from £2.7m in* 1983-84 down to £1.8m in 1984-85 and then rapidly up to the £13.3m scored for the year to January 1988.

Whereas in 1983-84 engineering was 61 per cent of the business and services was 17 per cent, by this year that ratio was virtually reversed. This shift was achieved through a string of acquisitions of US employment agencies taken against a backdrop of persistently sluggish markets for the vehicle engineering *division*.

Until now, that is. For the catalyst for the proposed vehicle engineering sale is that the division has clawed its way back to a healthy level of profit. Now, flush with its largest ever order announced last week, the division's management are anxious to take control of its business.

So why does Hestair want to sell? In part, it is because the division's return on capital is about half that achieved on *average* by the employment services and consumer products divisions. It also does not draw on the same type of marketing skills as the other two divisions.

But perhaps the most pressing reason for the divestment is Hestair's stockmarket rating, which it believes is depressed by the generally lowly-rated and volatile engineering interests. Mr Dermot Coleman, of BZW agrees: a



divestment could be worth an additional point on the rating - which now stands at 10 assuming pre-tax profits of £23.5m this year and a share price of 321p.

Stockmarket values have also inspired Hestair's idea of floating its US employment agency business in the next eighteen months. Hestair's US employment agencies have grown hand over fist since it first moved into the US in 1987 and are on target, with the help of a few further deals, to become the sixth largest US agency in terms of sales. With US employment agencies trading on multiples in their high teens, Hestair could hope to raise $40m - $60m from the sale even though it would keep a major stake in its business.

Such a move would also help raise the profile of the US business. This consists of 170 branches in 7 companies, spread round the US. From next February, these will all trade under the Talent Tree name - a move that should save costs and boost its marketing drive.

A third benefit from a flotation is that it would provide share options that could be an incentive to the US staff. Mr Richard Raworth, deputy chairman, says that a option scheme in Hestair shares has been considered but the company is seen as too remote from the US business to provide a direct incentive.

Yet another spur to the flotation of part of its employment agency business is this would automatically whittle down the share of employment services - now two thirds of its business. This is important, Mr Raworth argues, because of their cyclical nature. Although temporary help has become a far more integral part of a workforce than it used to be, Hestair is still mindful of the recession at the turn of the decade when most employment agencies plunged into loss.

As part of this drive to broaden the base of the business, Hestair plans to build up its consumer products division. At the core of this division is Kiddicraft, maker of solid and sensible toys for toddlers. Bought in 1976 for £36,000 it has grown, until last year it made trading profits of £1m.

Another longstanding part of this division is Hestair Hope, seller of stationery and related gifts - such as decorated writing paper - to schools and high street retailers.

Hestair has decided to build on both these businesses. This summer it bought Andrews-Maclaren, the baby buggy maker, with the intention of amassing more manufacturers of nursery equipment, such as high chairs and cots. It is now close to an acquisition in the UK and it is also planning to expand into continental Europe. The erosion of the trade barriers in Europe could bring substantial benefits to this division, says Mr Raworth. A larger market is vital, for example, to justify the extra costs associated with more modern materials and techniques for making baby buggies.

Likewise, Hestair is trying to build up the consumer stationery side, as the educational supply part of the business is facing tough competition. A first step in this process was taken ten days ago when Hestair bought HC, a photo frame and framed art company, from Intercraft in the US for £12.5m.

The new look Hestair will have nearly as many profits coming from consumer products as from employment agencies and which will be spread evenly around the UK, the US and, eventually, Europe.

Nevertheless, these moves are likely to go down well in the City. Hestair is perceived as having a strong balance sheet and a flair for shrewd and inexpensive deals. It would also calm worries about over-exposure to employment agencies. Last, but not least, it should change Hestair's image which is still dominated by the erratic if colourful fortunes of its fire engines and refuse trucks.

Christy Hunt lifts profits to near £4m

CHRISTY HUNT, now a maker of castings, electro-mechanical services and products, expanded its pre-tax profit from a restated £2.32m to £3.72m in the year to June 30 1988.

The profit figure was struck after trading losses of £186,000 (£839,000) from businesses sold and exceptional debits of £445,000 (£258,000).

Earnings were 5.6p (3.6p) and the final dividend is 1.28p for a total of 2.16p.

Just over a year ago the *company came* in as a white knight to rescue, and merge with, the larger Deritend Stamping.

From a turnover of £48.41m (£35.62m) the continuing operations produced a trading *profit of £5.26m (£4.16m)*.

Egerton Trust purchase and preference placing

EGERTON TRUST is expanding its UK housebuilding activities with the acquisition of the Northampton-based Gayton companies for an initial £2.5m.

It is also raising finance through the placing at par of 10m of 9.75 per cent first cumulative redeemable £1 preference shares 2013. James Capel has underwritten the issue.

The final terms have now been agreed by reference to the gross redemption yield of the 13¼ per cent Treasury stock 2004/2008. The first dividend, payable on June 30 1989, will be 5.5295p.

FT Share Service

The following securities were added to the Share Information Service in Saturday's edition:

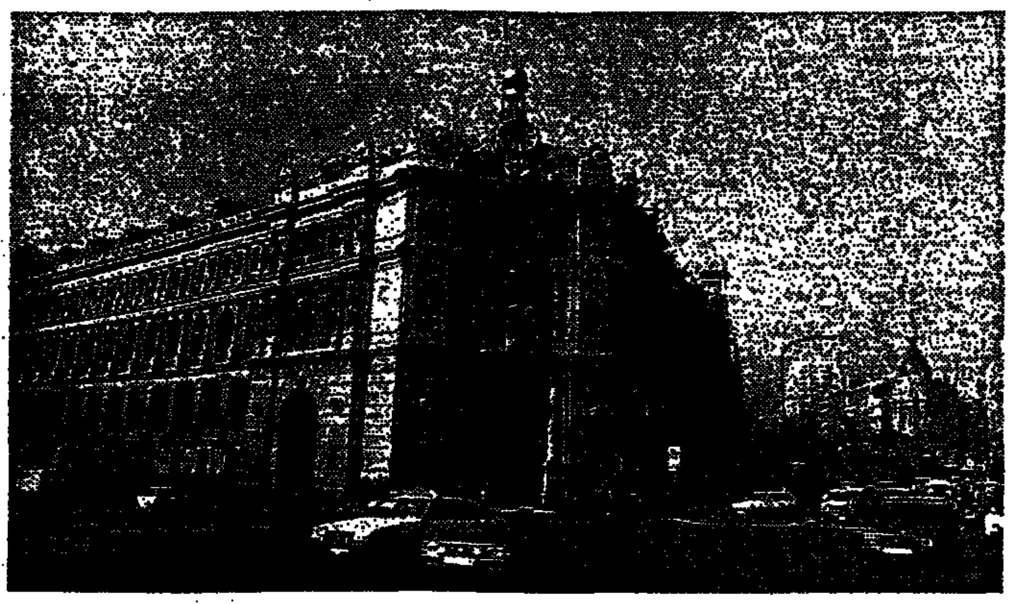
Darby Group (Section: Industrials).
Mitsubishi Bank (Banks).
Reject Shop (Stores).

FINANCIAL TIMES STOCK INDICES

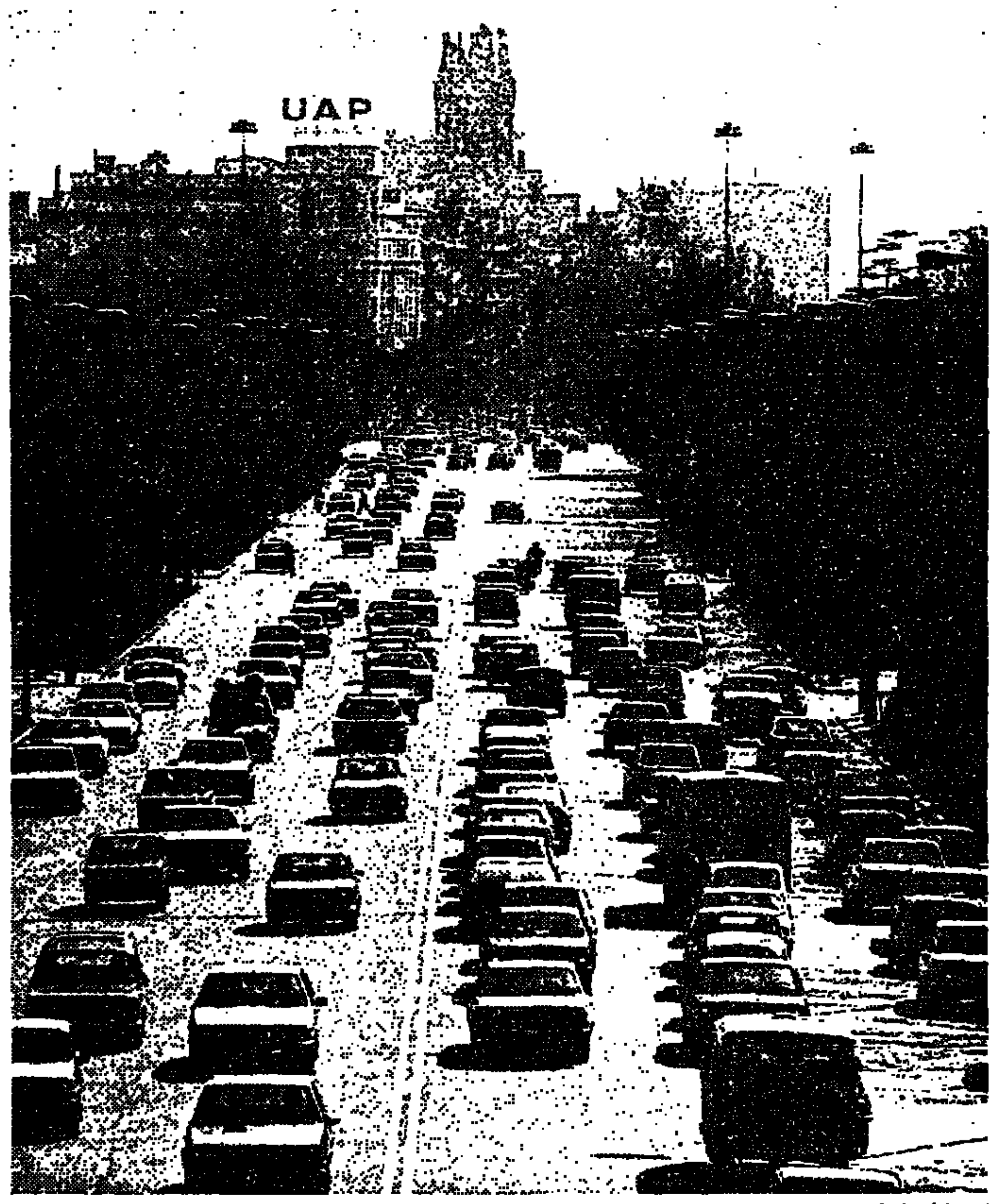
	Nov. 11	Nov. 10	Nov. 9	Nov. 8	Nov. 7	Nov. 4	1988 High	1988 Low	Since Compilation High	Since Compilation Low
Government Secs.	88.33	88.63	88.49	88.69	88.59	88.82	91.43	86.28	127.4	49.18
Fixed Interest	97.20	97.28	97.34	97.39	97.43	97.57	98.67	94.14	105.4	50.53
Ordinary	1461.2	1478.8	1479.8	1491.0	1475.0	1485.6	1514.7	1349.0	1926.2	49.4
Gold Mines	178.2	178.4	173.8	174.8	174.0	174.5	312.5	162.7	734.7	43.5
FT-Act All Share	943.42	954.67	954.19	961.04	951.58	958.61	978.58	870.19	1238.57	61.92
FT-SE 100	1802.7	1826.2	1825.7	1840.6	1819.7	1834.3	1879.3	1694.5	2443.4	986.9

FINANCIAL TIMES SURVEY

Madrid is a lively and vital city but to the newcomer it can also be a bureaucratic nightmare. **Tom Burns** takes a looks at the way the Spanish conduct business and the many building developments taking place in and around the capital



Central Madrid, showing the Bank of Spain building.



Ashley Ashwood

Castellana Avenue: sometimes jammed at 2am when the summer terraces are in full swing

MADRID

AS A BUSINESS CENTRE

City bursting with vitality

MR GEORGE BORROW, who in 1843 as agent in Spain to the Bible Society, earned fame with his book Bible in Spain, told his readers that he had visited most of the world's capitals but that "upon the whole none has ever so interested me as this city of Madrid."

He conceded that St. Petersburg had finer streets, that Paris and Edinburgh had more stately edifices, that London had far nobler squares and that Persia's Shiraz could boast costlier fountains, albeit not cooler ones.

What was it that singled Madrid out for special praise? Having built up considerable interest, the renowned traveller and adventurer positively bawled out his convictions: "The population! Within a mud wall scarcely one league and a half in circuit, are contained 200,000 human beings, certainly forming the most extraordinary vital mass to be found in the entire world; and be it always remembered that this mass is strictly Spanish."

The people have not changed in the past 150 years. For sheer energy it is hard to beat the Spanish capital.

In no other working city are there traffic jams at 2am as there are along the Castellana Avenue when the summer terraces are in full swing.

It was fitting that when the 17th century Hapsburgs decided that Madrid should be the nation's capital, Spain was at the time gripped by the exuberance, indolence, inventiveness and decadence of the baroque age. Madrid, say the city's aficionados, was to be a baroque masked ball - and the ball is as alive in today's zippy business capital as it was in the 17th century.

This is as plausible as any other characterisation of the city; there are developers uptown on the Castellana Avenue who are creating one Rockefeller Plaza after another. The mood is of a fast growing capital at the heart of a fast growing nation. Multinationals are in Madrid in force, many with their headquarters on the Castellana Avenue.

The leafy, wide boulevard, home to the Commerce and the Economy secretariats and to the Industry ministry as well as to energetic summer terraces and late night traffic jams, is without a doubt the decision-axis of Spain as far as business is concerned. All the central offices of the major foreign banks are in Madrid and so are the headquarters of more than one-third of Spain's large companies.

The city is the headquarters of the five companies which had the highest 1985 earnings in Spain and of the five with the greatest number of employees; of the five Spanish companies that invested most heavily in research and development, three are based in Madrid and of the five that invested most in fixed assets, four have their headquarters in the city.

A tour of business Madrid takes the visitor through the head offices of Telefonica, Iberia, the Corte Ingles department store chain, IBM Spain and the utilities Endesa, Iberduero and Hidroeletrica. Add to that the fact that more than 70 per cent of Spain's insurance, petroleum, construction and public relations sectors are stationed in Madrid and that the city's stock exchange handles 80 per cent of all national dealings and you can see why expense account restaurants are packed.

None of this should in fact be surprising. Madrid is Spain's geographical heart, its communications centre and its political, financial and administrative centre. To call it a communications centre requires a little imagination - as is often the case in Spain. The only motorway out of Madrid is a two-lane affair and it goes some 50 miles in the wrong direction - towards underdeveloped, north west Galicia which is the last place in which bullish business people are interested.

Barcelona is linked by motorway to Valencia, the French frontier and the Basque country but not to Madrid. The Madrid-Barcelona shuttle is a nightmare and even phoning Spain's second city at peak hours is well nigh impossible. Nevertheless all the national roads, with their meagre lighting and their excess of juggernauts, do fan out of Madrid - and Barajas is far and away Spain's most important international and domestic airport.

Despite all the communications shortcomings (a lot of money is currently being spent to improve them) you can travel more quickly from Madrid to more places in Spain than from anywhere else in the country - which is exactly why Philip II, that prudent centralist chose to move his court to the physical heart of Spain.

Madrid's status as a political centre has survived the post-Franco rush to decentralise. Catalans and Basques, for example, who make a point of running their own affairs, are the first to admit, and to complain, that the big, and all to often the small, decisions are still made in Madrid.

The central administration in Madrid employs 100,000 and all the leaders of the national political parties are elected to parliament on Madrid lists. Madrid has a long tradition behind it as a city of office seekers and dispensers. Its own economic boom, however, is a recent phenomenon. Madrid was where one obtained favours - but fortunes used to be made elsewhere.

After the Spanish Civil War, Francoism made a concerted attempt to lure industry away from the Basque Country and Catalonia, which were politically suspect areas. Thus an industrial belt emerged in the Southern suburbs of the city and industry came from nowhere to represent 20 per cent of the Madrid region's GDP - against 4.5 per cent contributed by construction and a whopping 74.4 per cent by the services sector.

Such was the importance of industry in Madrid that in the wake of industrial recession a decade ago these manufacturing suburbs were designated a Zone of Urgent Re-industrialisation (ZUR), as were areas of Catalonia and the Basque Country, under the costly scheme to provide state incentives for new investment.

That development has since been followed up by the Community of Madrid, the regional government of Madrid province. The Community, by way of its own agencies such as IMADE, the Madrid Development Board, has laid down a set of priorities to increase the supply of industrial space. The industrial profile of Madrid in the next decade will be shaped less by the heavy, labour intensive industries of the southern suburbs and more by the advanced industries sited in the North and East of the city. The technological park of Tres Cantos, home of AT&T's European venture, is a key aspect of this development.

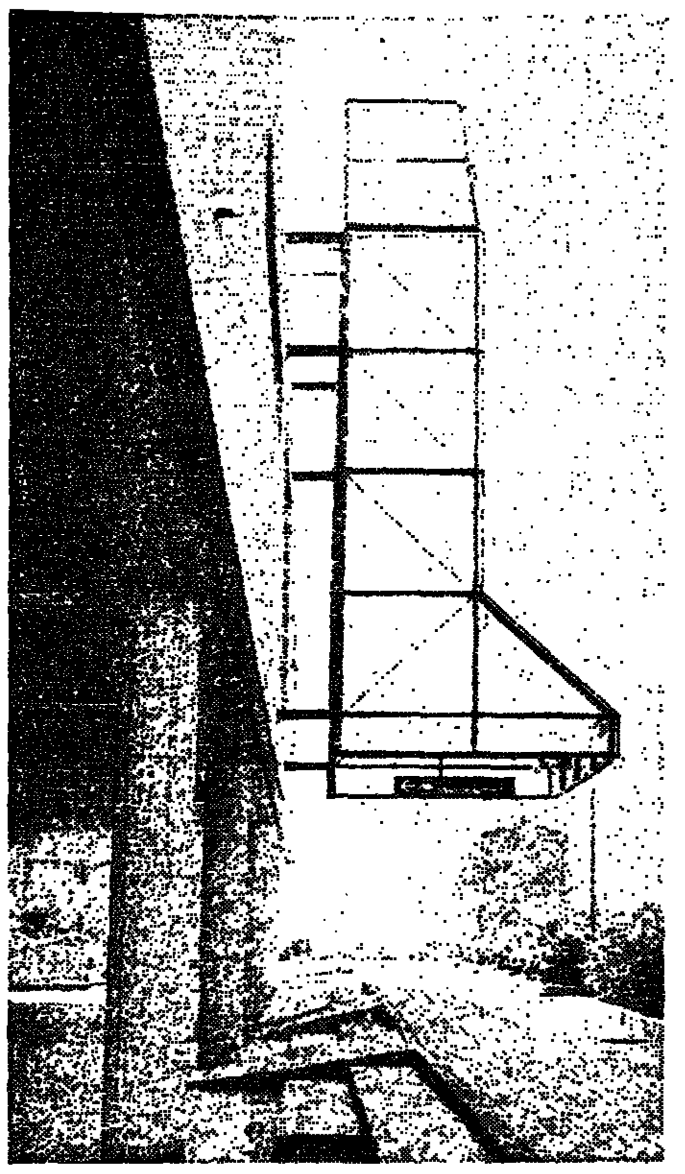
An essential aspect of industrial Madrid is that the city and the Community are utterly confident about the leading role that the region will play in advanced industries. The Tres Cantos park alone represents 50 per cent of the investment in Spain's scientific and technological sector. Half of Spain's most advanced technical schools are in the Madrid area.

Already Madrid is reaping the riches of these developments. It has long overtaken the Basque country in per capita income and is at the top of the table together with Catalonia and the tourist playground of Mallorca.

With 12 per cent of the national population, the Madrid region contributes 16.7 per cent of Spain's GDP and the proportion is growing. With its 5m inhabitants, 3m in the city proper, the Madrid region is booming, hungry for consumer goods and obsessed with fads.

The people that Mr Borrow marvelled at are having in Madrid today the time of their lives. The city is noisy, has appalling traffic problems and can be very polluted (Ernest Hemingway's description of a "mountain town" where the air was "actively pleasurable to breathe" is a sick joke) but it is indisputably fun, and as the baroque masked ball continues, so there is a ready awareness that anything can happen.

INSIDE: Tres Cantos: Eyesore becomes a showpiece, 2; **Campo de la Naciones:** Trade fair boost, 2; **Setting up:** Cutting through the red tape, 3; Leased property: prices rising fast, 3; **Survival:** Avoid taking a blinkered view, 4



The entrance to the business centre at Tres Cantos

TRES CANTOS

Eyesore becomes a showpiece

TRES CANTOS is a sort of Phoenix. Conceived as a housing estate, it stood for years as an emblem of a Madrid that had stood still. Now revamped as a technological showpiece it is being hailed as proof that the city is reborn and rising.

In the 1960s Tres Cantos was designated a dormitory town but as as the first tower blocks went up recession set in and ensured that much of it remained empty.

The would-be satellite town, 20 minutes' drive north of Madrid, was an eyesore for motorists driving to their weekend cottages and the ski slopes of the Guadarrama sierra.

Now 20 years later, and in a wholly different economic climate, the same area has been turned into an industrial nucleus of mainly research and development public and private ventures that incorporates its own technology park. High-tech companies are competing for locations and the prime site is occupied by AT&T.

The grandiose scheme of the twilight years of Francoism had originally envisaged 100,000 in the custom-built new town. When work began, the housing estate had already been scaled down to 30.000 inhabitants and in the event only 12,000 moved in.

The arrival of the US giant changed the prospects of the virtual ghost town overnight.

Four years ago AT&T initialled a joint venture with Telefonica and chose Tres Cantos as the site of a $200m plant dedicated to the design and manufacture of intergrated circuits for the European market.

It was said that the new plant would act as a magnet for other high-tech projects but, just in case, the Madrid authorities have left nothing to chance. They have created the industrial estate and the technology park with intention of leading likely companies into AT&T's magnetic zone of influence. The US multinational did not come cheaply to Tres Cantos. State subsidies for the plant amounted to $60m and soft credits were worth a further $70m. Telefonica itself, as the venture partner, provided 20 per cent of the equity and the Tres Cantos land area was a giveaway.

Similar handouts lie behind the rush to bask in the shade of AT&T's umbrella. Companies setting up at Tres Cantos are eligible for non-returnable subsidies of up to 30 per cent of fixed asset investment in addition to a 99 per cent import duty discount on capital goods from the EC and a further 99 per cent municipal excise taxes discount on the establishment of industrial activities.

The specific aim of the estate and the park is to attract R&D activity and all ventures that fall within this sphere have access to a second group of administration subsidies and soft credits.

There is a third set of incentives for projects that are tuned to Spain's National Electronic and Computer Science Plan (PEIN), to the Research Promotion Plan for the Pharmaceutical Industry and to European initiatives such as the Eureka and the Esprit programmes.

The gestures and, particularly, the incentives and the almighty AT&T magnet are producing the goods. Virtually all of the park's 42 greenfield plots, with surface areas varying between 2,600 sq metres and 10,400 sq metres, have been sold and Tres Cantos SA, the agency set up by the Madrid regional government to promote them, is now acquiring more land.

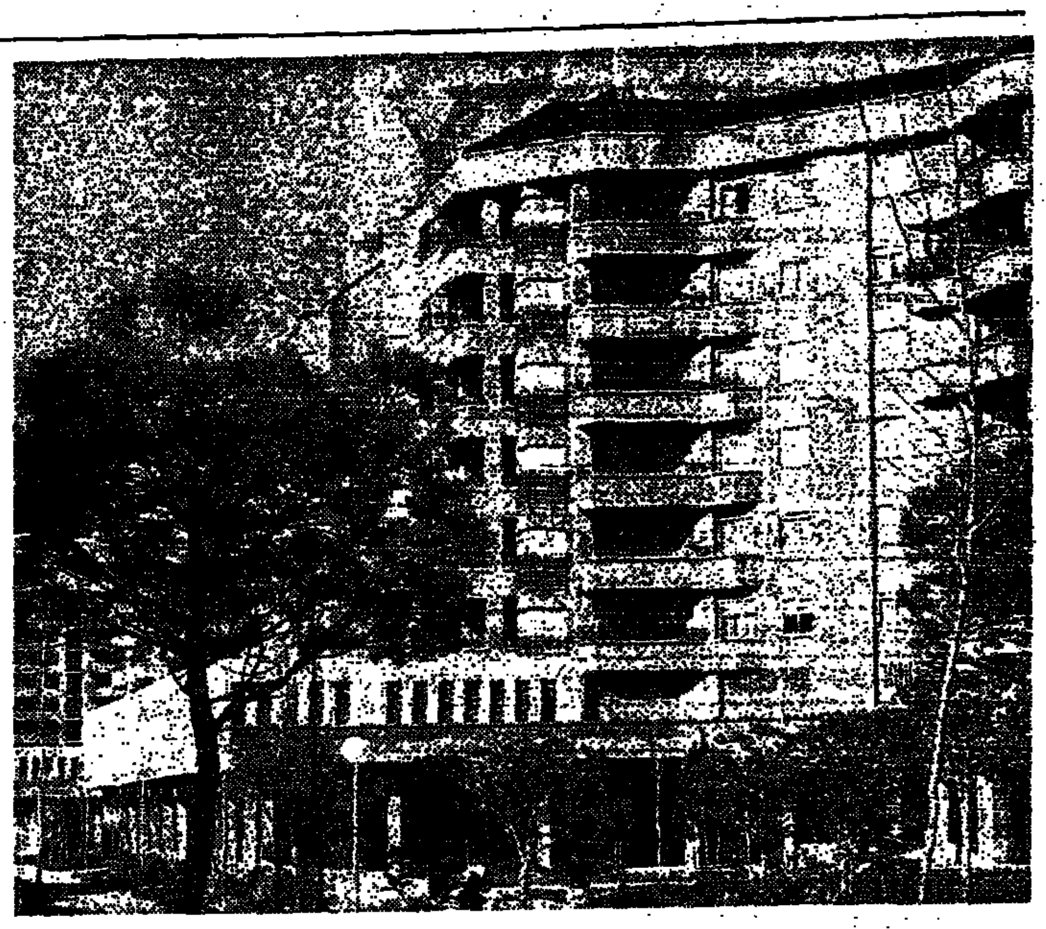
IMADE, the Madrid Development Board, has, meanwhile, organised a series of frameworks that allow companies installed in the Technology park access to public research institutes and notably to Madrid's Autonomous University which has its campus between Tres Cantos and the city.

The housing projects which were stopped in their tracks two decades ago have started up once more, although this time around maximum four storey buildings are being built instead of tower blocks. Plans are also in hand for eight primary schools, six sports centres and a commercial zone with more than 100 establishments.

If the Phoenix keeps rising, Tres Cantos will have a population of about 40,000 and the industrial estate, comprising more than 150 ultra modern companies, will be providing 10,000 skilled jobs.

Tom Burns

A golf course is among the sporting facilities at Tres Cantos



One of the housing developments at the Tres Cantos replacing the initial tower blocks

Campo de la Naciones

Trade fair plans boosted

MADRID IS something of an oddity among capital cities because it tends to end very suddenly.

City limits mean exactly that and asphalt immediately gives way to the emptiness of the Meseta plateau. It is precisely on one of these dramatic urban edges, to the north east, where the manicured gardens of the expensive Conde de Orgaz suburb give way to a brown scrubland that is home to sheep searching for subsistence nourishment, that the grandly titled Campo de la Naciones, the Field of Nations, is to be built.

The project is an emblem of Madrid's hurried expansion and of its seemingly endless growth ambitions.

Competing plans for the development will be reviewed this month by the city authorities. Common to all the proposals is the inclusion of two hotels, a conference building equipped to hold 20,000, an international business centre, and a sports and recreational area.

In advance of the final plans for the future field, earth moving has started on a substantial corner of it. This area, occupying 22 per cent of the Campo's 4.3m sq metres has been designated as the site of a trade fair complex and, if its construction keeps to schedule, will be fully equipped to entice exhibitors away from the likes of Birmingham and Lyons, in 1990.

Mr Ignacio Solana, chairman of Recintos Feriales Madrilenos, Refemasa, the company that will run the complex, expects there will be a heightened competitive tension as the Madrid Exhibition Centre opens but he also believes that demand is growing strongly and that there will be enough cake for all.

The type of fair that Mr Solana wants to stage will be "a professional one and more international than domestic".

Star events of Madrid's current annual fair calendar are an international tourism fair - Fitur - which attracts about 3,000 exhibitors from more than 100 countries and a somewhat smaller event - SIMO international - dedicated to office equipment and computers. Mr Solana, naturally, would like to see several more fairs of this calibre coming to the new centre.

The existing optimism over the project is based on the success so far of Madrid's participation, with limited facilities, in the fair circuit.

The city was a late starter in the industry for it was not until a specific city fairs agency, the Instituto Ferial de Madrid (IFEMA) was created in 1980 that serious promotional work was undertaken. In its first year of operation, IFEMA organised 17 fairs. In 1986, a record year, 35 fairs were staged in Madrid drawing 13,000 exhibitors, 2,300 of them non-Spanish, and 2m visitors.

Fair activity in Madrid has an accumulated annual growth rate of 20 per cent. The new centre will complement the two existing fair sites, one at the northern end of the Castellana Avenue and the other set in the Casa de Campo park, and will double the available exhibition space. Mr Solana's plans at Refemasa allow for an area of 105,000 sq metres for technical installations and a further 30,000 sq metres for exhibitors' and visitors' services, thus making the new complex only slightly smaller than Birmingham's.

Considerable emphasis is placed on the characteristics of the centre. Essentially, it will be a flexible exhibition zone composed of eight units that can be used individually or combined to form a single space.

Two of the units will be just over 5,400 sq metres, a further two will be 10,800 sq metres and and the final four will be major one of 16,200 units.

The idea is that any product, of any size, value or nature can be exhibited and that each unit has its own complete back-up services. The structure, within the Campo, is set in a park of its own with 300,000 sq metres of parking space (enough for 12,000 vehicles in addition to 100 trailers and 150 buses) and a further 200,000 sq metres of gardens.

In all the exhibition centre will have nearly four miles of internal roads which will have three entry points, two of them on the main Madrid ring road and the third linking the centre directly to the airport.

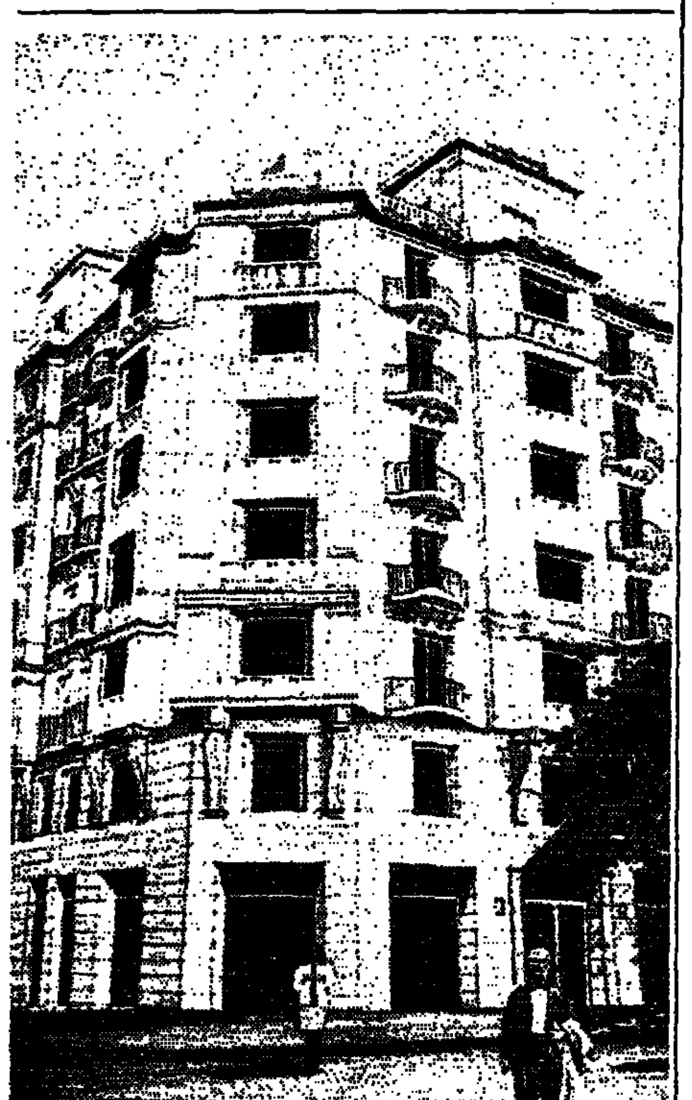
Created in 1986, the funding and sponsorship of Refemasa illustrates the manner in which Madrid officialdom is determined to push and promote the city for all it is worth.

The break down of initial pta 5bn (£239m) outlay had the Madrid Council and the Comunidad de Madrid, the regional executive providing pta 2bn apiece. The Madrid Chamber of Commerce and Industry and the Madrid savings bank provided 10 per cent of the equity and pta 500m each.

Initial forecasts indicate that about pta 15bn will have been invested in the project before the first exhibition opens for visitors.

In terms of attracting visitors and creating jobs, the layout is according to Refemasa's backers cheap at the price. They point to Birmingham and the positive impact that that centre has had on the city. The larger Campo venture, with its extremely ambitious planning, indicates that the exhibition centre is only a start.

Tom Burns



The Alfonso XII 30 office development being handled by Jones Lang Wootton

In spite of much building, there are still leafy parts to the city of Madrid

Setting up in the city can mean facing a bewildering bureaucracy

How to cut through the red tape

PERSONAL CONTACTS and networking skills are very important everywhere but in Madrid they may be more necessary than in other business cities.

Mr Nidardo Cuadrado, a Spaniard who runs the Madrid branch of a major US consultancy firm, says the main problem foreign businessmen face in the city is that "the rules of the game are not clear".

A foreigner arrives expecting clear legal guidelines for business activity but rapidly finds a bewildering bureaucracy. Even fairly simple operations, such as importing personal belongings, can become nightmares and starting up an office means a wearying pilgrimage through government departments. In Mr Cuadrado's experience every major business entering Spain ends up sooner rather than later being represented by one of the three or four major law firms in Madrid.

A timely telephone call to the right person means cutting through miles of red tape.

If they are wise, new arrivals, big or small, will also listen carefully to what foreign bankers resident in Spain have to say.

Some listen, for example, to Mr Courtney Worthington, a former member of the State Department and a senior executive of a US bank in Madrid for the past eight years. He spends much preaching the value of networking to foreign businessmen setting up in the Spanish capital. He tells the story of a newly-arrived American acquaintance whom he cautioned against buying companies in Spain using only balance sheet data. When the would-be buyer protested that the figures he was examining had been audited by a top international firm, Mr Worthington entreated him to "ask around" before making any purchases.

"Accountants are not the high priests of business in Spain and it is naive to assume that accounting standards here are the same as in the UK and the US," says Mr Worthington.

"Balance sheets in Spain can be creatively put together for the taxman."

The complaint is common. Madrid consultant Mr Joe Franklin, a retired general who used to be the senior representative of US forces in Spain, warns clients against "coming cold" when they arrive to do business.

"Investors receive a lot of conflicting information here and a thorough groundwork before arrival, with a properly established network, is essential," he says.

Mr Alfredo Fraile, one of Spain's top networkers, concedes that standards are different and that "balance sheets can be cosmetic".

A consultant to major market makers in Spain such as the Kuwait Investment Office (KIO), Mr Fraile argues that aside from book-keeping, the situation is not too different in Spain than elsewhere. In Madrid the edge comes with a good image and the right introductions just as it does in Paris, London and New York. Mr Fraile, who was once the personal manager of crooner Julio Iglesias and groomed him for stardom, opens doors and so does rival networker Mr Julio Feo who was Prime Minister Felipe Gonzalez's chief of staff for five years before he turned to consultancy work.

Whether the need to network is greater in Madrid than in other capitals may be an open question but it there is a consensus that reliable information is at a premium. Professionals such as Mr Fraile and Mr Feo can save much time when it comes to "asking around".

Introductions and personal relationships are a vital part of business life in Madrid and every foreigner working in the city soon that realises that he might well be ignorant about much of what is really happening.

Recent financial difficulties experienced by major Spanish companies, such as the electrical utility Fecsa or the chemical group Explosivos Rio Tinto, infuriated foreign creditors. The latter had, unwisely, believed published information while some other domestic institutions had been tipped off and were in the clear when the real figures were revealed.

According to broker Mr Francesc Guardans, "insider information has been and remains an institution."

Mr Guardans returned recently to Madrid after nearly 10 years on Wall Street and he found that little had changed: "Half a dozen people here who are in the know call all the shots."

Mr Cuadrado, the consultant, believes that Madrid can be a closed society for foreigners and he is not surprised they are frequently baffled by the city's business environment. Mr Ward Wallace, a US promoter with 20-years experience of Spain agrees: "Spaniards are very hospitable in everyday life but when it comes to business they can be extremely reserved." Part of the problem is that there is a lack of forums where foreign and domestic businessmen can exchange views.

The US and the British chambers of Commerce in Madrid fail to create a dialogue between Spaniards and foreigners and they are referred to as "jokes" by their expatriate members. Also, Spanish institutions, such as the Employers Confederation, can be less than welcoming to an outsider.

The situation may be becoming easier and more professional. "If you have a good venture, you will get an audience," says Mr Wallace.

Banker Mr Worthington believes that breaking into Spanish business depends, as it does everywhere, on what you are offering and what people want from you. One sign of change is that the three-hour lunch is shrinking in time. Experienced movers and shakers such as Mr Fraile believe they are on the way out. But what has not changed is the technique of reaching the right person on the telephone.

Inevitably a stonewalling secretary says the object of the quest is *reunido*, at a meeting. "You have to ring on behalf of a networker, you have to call *de parte de* so and so, in order to be put through," says Mr Wallace.

Alternatively one skilled foreigner in Madrid evolved the following tactic for breaching secretarial defences: "I know he is *reunido* and that is precisely why I have to speak to him urgently."

Tom Burns

'OFFICE HOTELS'

Businesses which can lend a hand

BUSINESSES DEDICATED to helping other businesses start up are a particularly specialised niche of the services sector and and a better indicator than most of an area's business environment.

Such ventures simply did not exist in Madrid until recently but suddenly they have appeared and seem to be thriving.

Companies like Eurobusiness, which was established three years ago, and Lynx which opened early this year claim to offer much more than a centrally-located office, the use of a fax machine and a 24-hour answering service.

Both companies use words like 'global' and 'total' to describe their services.

The cornerstone of their business is running "office hotels". For between £750-£1,500 a month they both provide clients with a prestigiously addressed place of work that is functional yet pleasant and slightly bigger than a cubby hole.

Eurobusiness is uptown on the Castellana which is where multi-nationals and those who work for them live. Lynx is, if anything, grander for it is downtown on the same avenue and its offices overlook the Cibeles fountain square and the bank of Spain.

Demand for such temporary offices has sharply increased. Since last year, Eurobusiness has had a waiting list of between seven to 10 companies. These enterprises, mostly foreign, have been marking time for two months and more in the hope of renting one of Eurobusiness's 17 offices and gaining access to its back-up services.

Lynx, which has only just opened, has already established a 60 per cent occupancy rate for its 30 offices.

So promising do these ventures look that there are at least three other complexes in Madrid offering temporary office accommodation, all with the secretarial and communications trimmings and several more are said to be in the pipeline. As far as Mr Rodriguez Castanon, a Eurobusiness executive, is concerned, the number could double and even they would not satisfy demand.

For the moment but not for very much longer, Eurobusiness and Lynx appear to have the start up market to themselves.

The two companies have realised that the real profit margins in this sector come with a growing range of additional, often tailor-made, services. They have both branched into offering everything from accounting assessment and legal advice to personnel search.

Their typical clients have been foreign companies involved in distributing high-technology. In about 80 per cent of cases the client has already conducted his market research and decided that he intends to establish a base in Madrid. What this client needs is an office home for a couple of months while he sets about leasing proper premises and hiring staff.

Other clients fall into two brackets. There are those who are testing the Spanish waters and there are those who do fairly regular business in Madrid but do not require permanent offices.

The trend in both these brackets has increasingly been to take the plunge and stay in Madrid. First, however, comes the tedious paper work to put the new business on a legal Spanish footing. Mr Manuel Sanchez Portillo of Lynx reckons that lawyers' fees for exactly the same work done in the same amount of time can vary from £750 to £7,500.

At Eurobusiness, where they have encountered the same situation, Mr Castanon is emphatic about putting clients in touch with what he calls "reasonable" legal advisers. There can be a shock when it comes to hiring clerical staff, a service which both companies also provide.

Language and computer skills are low and a good secretary commands £8,000 a year which is more than what many newcomers expected to pay.

Middle-high executives are for their part holding down £40,000 and again the salaries reflect the comparative scarcity in the face of considerable demand.

As newcomers discover such grim realities of business life in Spain they appear to be turning to start up experts in greater number than ever.

Tom Burns

LEASED PROPERTY

Lack of space pushes up prices

THOSE WHO lease office space in Madrid are making a fortune, those who have to rent it are paying through the nose.

It is a question of supply and demand and it boils down to an abysmal lack of central office space in the Spanish capital.

Comparisons on this issue between Madrid and other European cities are embarrassing. The office/inhabitant sq metre ratio ranges from Frankfurt's high 12 per cent to Greater London's low 2.64 per cent. Brussels has 6.12 per cent and Paris has 3.10 per cent. Madrid's statistic is 0.81 per cent. Madrid could live happily with such a ratio were it to be a lotus-eating, residential garden city but of course it is nothing like that and it does not want to be.

The demand for office space in Madrid is demonstrated by the vacancy rates - or rather the lack of them. Unoccupied offices in the represent 2.5 per cent of the total space available in Frankfurt and in Brussels, 3.1 per cent in Paris and 3.5 per cent in Greater London. In Madrid only an average 1.45 per cent of the total available office space has been vacant so far this year.

A way of measuring what has happened to Madrid so far this decade, and by extension what has happened to Spain for Madrid is the nation's business capital, is to look at rental levels for prime properties. Between 1980 and the end of 1985 rents rose from pta1,200 sq metres/month, exclusive of service charges, to pta1,900 sq metres/month. Then everything went crazy. In December 1986 the going prime property level was pta2,400 sq metres/month, it was pta3,000 sq metres/month a year later. Last month the price was about pta4,000 sq metres/month for prime office property in Madrid, if you could find it.

The property company Richard Ellis which compiled those figures estimates that demand for rental accommodation in Madrid will remain at a high level and that rental values will continue to increase much faster than the rate of inflation.

Certainly with Spain economically booming and foreign investment pouring into the country, property demand has a head start over supply and the gap is growing. A key element in this context is the strict enforcement of planning restrictions in the city centre. To the applause of conservationists, and to the consternation of builders and speculators, the Madrid authorities have for some time now systematically refused permission to demolish buildings. All that can be done is to gut and refurbish them, keeping the existing shell.

MADRID BUSINESS RENTS

Year	Pesetas per sq metre per month
1980	1,200
1985	1,900
Dec 1986	2,400
Dec 1987	3,000
Sept 1988	4,000

Source: Richard Ellis

It is impossible to increase significantly the volume of office accommodation in the city centre. New high rise buildings are growing like beanstalks in the uptown area of the Castellana avenue.

The 46-storey Torre Picasso will begin packing in tenants early next year and earthmoving will soon begin on a Kuwait Investment Office-funded project to build twin 27-storey blocks still further north on the wide and tree-lined road. But the projects fall short of demand.

There are just more than 3m sq metres of office space in Madrid and in spite of the fact that about 300,000 sq metres more are going to come on the market over the next four years, there will continue to be an important deficit of first-class office accommodation in the city.

The estimated gross take-up figure of office space this year will be 150,000 sq metres, up from 115,000 sq metres last year but estimated demand annually for air-conditioned, centrally located offices is reckoned to be running at 200,000 sq metres per annum. At the end of 1987 there was an unsatisfied demand of approximately 83,000 sq metres and if the present growth rates are maintained the unsatisfied demand figure will stand at 200,000 sq metres by 1991.

What is likely to happen is that companies are going to move out to the Madrid suburbs. The growth areas in this respect are the north east highway, the N11, to Barcelona which passes by Madrid's international airport and the N1 highway heading north and the NVI highway, known as the Corunna road, which is Madrid's north west exit.

The N11 Barcelona highway has the advantage of airport access but is already heavily built up and is unattractive residentially. The N1 and the NVI exits lead towards Madrid's superbly scenic Guadarrama mountain range and are the focal points of large-scale housing projects.

Kodak moved its headquarters a 15 miles out of town along the NVI a couple of years ago in what was for Madrid an exceptionally bold move.

The venture has now attracted imitators such as Hewlett Packard and a division of Banco Hispano Americano. When it moved out Kodak was supplying five buses to transport its staff out to work. Now only two buses are required for the majority of the Kodak's employees are living out along the same north west highway, within sight of the Guadarrama Sierra, near the better schools and far from the city centre's pollution, its muggers and its traffic chaos.

The trend will almost certainly continue. If Madrid is to live up to its business centre ambitions it will have to.

Tom Burns

The city is having little success in tackling crime and poverty

Fighting a losing battle

CHARLES III, the enlightened Bourbon monarch is generally considered to be the best mayor that Madrid ever had because just about everything that improved the capital's quality of life, from the introduction of regular refuse collection to the launching of a lottery and the construction of the Prado, occured during his 18th century reign.

However when it came to putting down city crime, Charles, or rather his minister the Marquis of Squillache, not only failed to control it but created a citizens' mutiny by trying to do so.

Squillache took severe objection to the Madrilenian use of ground length capes which were ostensibly worn by all because the streets were filthy but which were also a notoriously good garment for disguising muggers and other undesirables.

Arguing that as the streets were now cleaner, Squillache ordered a ban on such capes and had tailors stand at street corners with large scissors to cut off the offending extra length of cloth. The result was a revolt, known as the Squillache mutiny, the repeal of the ban, the dismissal of the ill-advised minister and continuing street crime.

Modern mayors and officials have also met with scant success when it comes to policing the city. Every so often there are reports of near riots in Madrid's outlying semi shanty towns, *the barrios* when police try to arrest drug pedlars and youthful criminals.

Leave anything in your car and the window will be smashed and the item stolen. Four out five people you meet will have direct experience of a mugging or a break-in. According to the police, virtually all such street crimes are drug related. Reviewing crime and drug abuse earlier this year Ms Ana Tutor, the governor of Madrid, concluded that that there were 8,000 heroin addicts in the city and that 2,000 were responsible for more than 90 per cent of reported crime.

There certainly were *attempts at policing, for* arrests more than doubled going from 10,212 in 1986 to 21,864 in 1987 but the effectiveness of such action was open to doubt.

Every crime weary Madrilenian (statistically 44 out of every 1,000 inhabitants of the city was a crime victim last year) *will tell* you that *those picked* up by police are usually soon back on the streets.

Ms Tutor admitted that 125 of those arrested in 1987 had been detained between four and 12 times in the course of the year. There were close on reported 15,000 muggings in Madrid last year, a 32 per cent increase, just over 20,000 car thefts, another 32 per cent rise and 41,032 car break-ins, an annual jump of 66 per cent.

Other areas of crime, notably house break-ins which were down by 29 per cent to 9,147, presented a better picture. Violent crime was also down and *fewer banks, jewellery shops,* pharmacies and petrol stations were robbed.

Squillache ordered a ban on long capes and put tailors on street corners with scissors to cut the offending cloth - the result was a revolt

The principal city safety problem, in the view of Ms Tutor and Mr Juan Barranco, the mayor, is petty theft by youths who need money quickly to buy drugs. Such youths mostly live in the outlying *barrios* where unemployment and drugs are plentiful.

They and their ghetto-like home areas are a decidedly dark side to Madrid. Fr Eloy, a parish priest in the north eastern barrio of Canillejas, knows the dark side well. He gives what money he can to the local young drug addicts to stop them making fund raising sorties into the city centre. Another priest, Fr Enrique, whose parish is in the southern slum of Vallecas, organises regular demonstrations calling on the authorities *to provide more funds for drug rehabilitation.*

But drugs and drug-related crime is not Madrid's only serious blackspot. In Canillejas, Fr Eloy's principal concern is grinding poverty: "There are many families here who are physically hungry and have nothing to eat for the following day."

The Canillejas parish receives subsidies from Caritas, a Catholic charity organisation which runs 12 kitchens providing free meals in Madrid. Also, there are six such kitchens manned by nuns. You do not have to go out to the barrios to see the face of Madrid poverty.

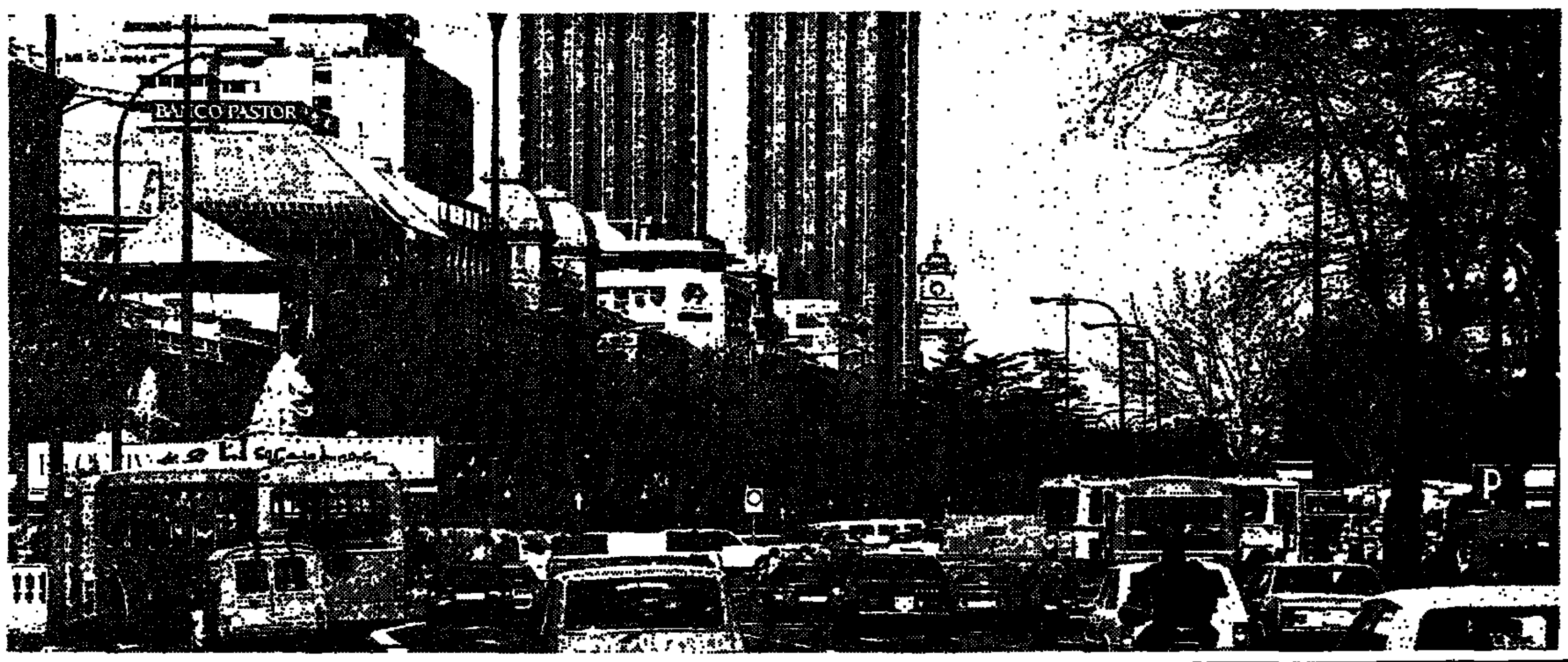
In the prime rate property street called Martinez Campos, a wide boulevard that leads in to the Castellana Avenue, there are long queues outside the convent of the Immaculate Conception

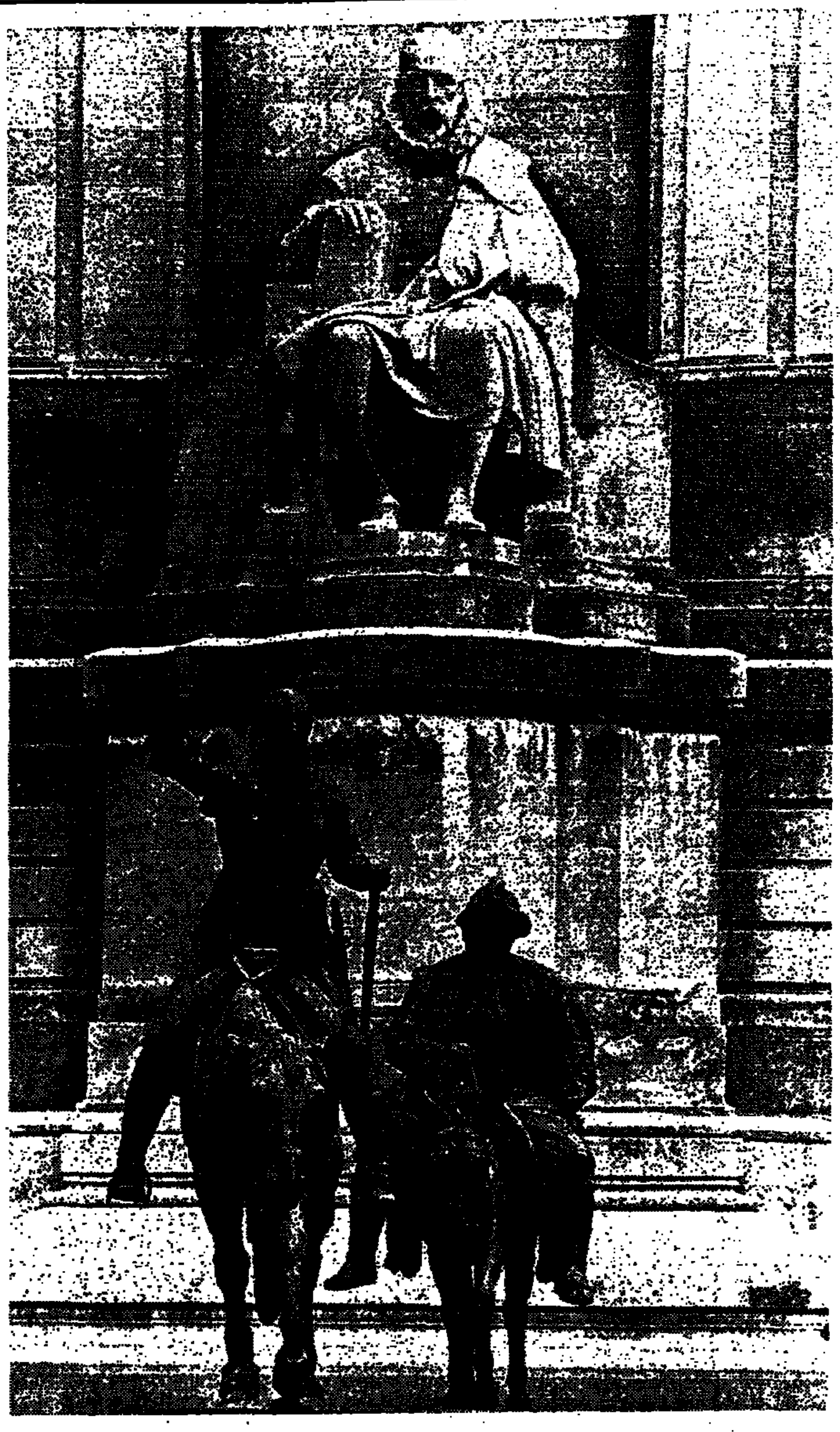
"It is no longer tramps, and runaway kids who come here," says *one of the Immaculate* Conception's sisters.

Juan Jose Beltran, the executive secretary of Caritas, reckons that there are 90,000 Madrilenians suffering severe poverty. "Poverty in Madrid is a structural problem that has existed for centuries and in these last years the number of *poor families* has been growing In Madrid there is a North and a South." Charles III, whose Madrid was as much a boom city 200 years ago as it is now, did not stamp out poverty any more than he coped with crime.

Goya, who painted the monarch several times as well as just about all his ministers, except Squillache, also produced canvases peopled by Madrid's robbers (they broke into stage coaches instead of cars) and its beggars.

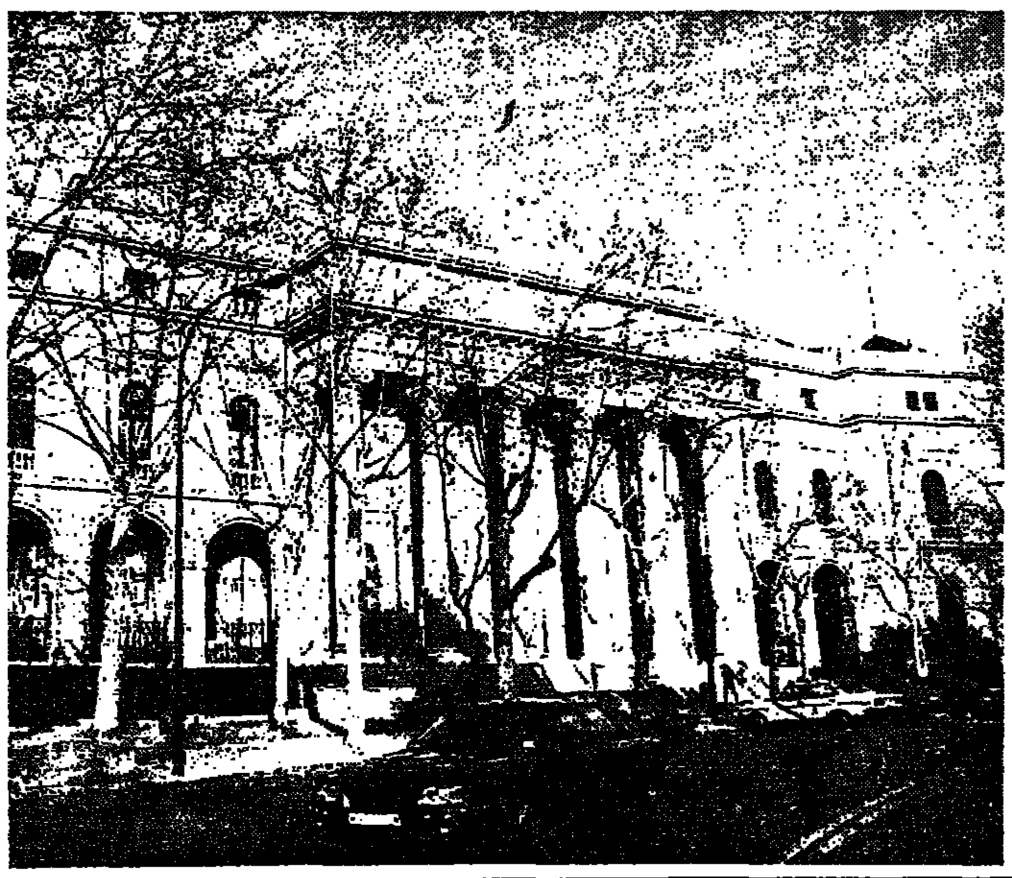
Tom Burns





The statue of Don Quixote in Madrid's Plaza d'Espana

Financial centre: all the main offices of the major foreign banks in Spain are located in Madrid. Above: Paseo de la Castellano; and, below, the Madrid Stock Exchange building.



It can take time to adjust to the way things are done in Europe's sunniest capital

Avoid taking a blinkered view

THE FOREIGNER'S secret to surviving in Europe's highest and sunniest capital is to not arrive blinkered. When in Madrid, do what the *Madrilenos* do, or, at least try.

Although there is a new breed of Spaniard now propelling the old country into the 20th century, the male Spanish yuppie still greases back his hair like an old Franco general, keeps erratic office hours, has never ending lunches and drives like a lunatic.

Because *Madrilenos* refuse to delegate or keep their secretaries informed, to get appointments one has to either employ a local secretary or adopt a I'm-here-see-me now attitude.

"Some Spaniards will think nothing of missing an overseas visitor," says a Michael Rourke, a Madrid-based British insurance broker. "Remember there are four 'yeses' in Spain. In Barcelona 'si' means yes, in Madrid it's maybe, in Seville it's no and in Galicia, all three."

Even Spaniards who have studied at Oxbridge or Harvard, like half the current cabinet, have a zest for flaunting national habits which would drive a time and motion man to perpetual manana.

Fund manager David Jimenez Blanco, aged 25, admits he is probably typical of most local businessmen.

"I get up at 8.30, take my coffee on the run and get to the office by 9am because like most people, I live nearby," he explains. "Then I might pop out for another coffee before breakfast at 11am. *Aperitivos* at 1, and at 2pm I either go home or start a business lunch. This will usually last 2½ hours with coffee, pacharan (the new 'in' Spanish *digestivo* of sloe and anis, allegedly half the strength of traditional brandy) and cigars.

"In Madrid, this is how we really do business. Then it's work again from 4 until 8pm. After that it's *copas* at somewhere like Castellana 8, or in the summer the *terrazas*."

One hour for lunch in Spain is an insult and dining before 10pm is for children only.

The latter are a series of open air summer bars - Madrid freezes in winter - among the middle line of trees in Madrid's main north-south Castellana artery. Here Porsches line the bus lanes as nocturnal bait for Serrano rangers, Madrid's trendy Sloanes.

To get around, taxis are numerous but adept at cheating. Always watch the driver start the meter - especially at the airport. There are sometimes small supplementary charges. If in doubt, ask for a receipt.

If you are not very rich and staying at the Ritz, then the Palace Hotel (Plaza de las Cortes 7. 429 7551) across the road is always the favourite choice. The huge stained glass cupola domed bar is a magnificent meeting place and the Prado art museum is close by.

By the Serrano-Castellana business area is the Castellana Inter-Continental (Castellana 49. 410 0200), still popular with Americans who remember it with greater linguistic ease as the Hilton. Uptown near the newest high rise offices is the huge Hotel Melia Castilla which floats majestically in a sea of girlie bars.

By contrast, the venerable Wellington (Velasquez 8. 275 4400), by the lovely Retiro Park, is old fashioned with a surprising garden and swimming-pool, whilst the small, modernised Breton (Breton de los Herreros 29. 442 8300) is not far from the new business areas. The ageing and economical Victoria (Plaza del Angel 7. 231 4500) is recommended for exploring old Madrid, the *tapa* bars and the Prado.

For longer stays, estate agent Mr Ramon Alas says pta230,000 (£1,100) per month pays for a central apartment with garage - vital - and pool rising to pta600,000 for a small mansion in the exclusive northern suburb of La Moraleja.

Here buying a smallish detached house will cost over pta80m an apartment nearby in equally popular Mirasierra about pta40m and a little more downtown. Agents charge 5 per cent and tiny property ad's in the press are an incompetent jumble.

Claudine Innes, 25, Account Officer with First Chicago has a few tips for long stay survival:

"Eat with people you like but wait until Wednesday. The weekend has to be within feeling distance. Spaniards eat lightly. Don't mix your drinks like they do.

"Dinner begins at 10 and goes on to all hours. It takes getting used to and you musn't always worry about how awful you'll feel in the morning. But I prefer Spain to London. It's more personal. Just because the work isn't 9-5, the people in Spain who have to get something done always do. I trust the people who work here.

In old Madrid, Botin (Cuchilleros 17. 266 4217), in spite of being listed by Guinness as the world's oldest restaurant and packed with tourists, maintains traditional Castillian *meson* fare of wood oven roast baby lamb or suckling pig. Nearby is Casa Paco (Puerta Cerrada 11. 266 3166) where you can sizzle delicious steaks on scorching platters. A smaller luncheon venue, is La Gran Tasca (Ballesta 1. 231 0044)

Then there is *Nueva Cocina* - in Spain plates actually have food on them. For serious business try the Belagua (Hermosilla 4. 431 2715) or for more gentle touch seduction the converted stables of El Amparo (Puigcerda 8. 431 6456) and the intimate bistro of Viridiana (Fundadores 23. 246 9040). When in Madrid, you should not miss El Pescador (Jose Ortega y Gasset 75. 402 1290) or La Trainera (Lagasca 60. 276 8035) where the Atlantic meets the Mediterranean.

The elegant Zalacain (Alvarez de Baena 4. 261 4840) has three Michelin rosettes and for a very late date, join pop stars and actors at the trendy English-run Armstrongs (Jovellanos 5. 522 4230).

A good place for a rendezvous (and Angel's excellent cocktails) is the wood panelled Bar Balmoral (Hermosilla 10) with its scattering of retired generals, often with interesting decorations. Or eavesdrop on a *tertulia* a discussion group, among the *literati* at the Cafe Gijon (Paseo de Recoletos 21), one of Madrid's famous old cafes.

Suggested reading:
Madrid Guide (Everything Under The Sun Series) Novatex and Harrap.
Window on Madrid (A Newcomers Guide). The British Ladies Association, available from Booksellers SA, Jose Abascal 48, 29003-Madrid.
You and The Law in Spain. Lookout Publications, Fuengirola, Malaga.

Edward Owen

CONSTRUCTION CONTRACTS

Ford (UK) expands in South Wales

BALFOUR BEATTY *BUILDING*, a BICC company, has been awarded two major design and build contracts in South Wales by Ford (UK). The buildings will provide approximately one million sq ft of production space in two locations, Bridgend and Swansea, and the contracts are valued in the region of £30m and £10m respectively.

The works involve the construction of two motor factories, including substantial diversionary and drainage works

When completed, the buildings will house the manufacturing plant for Ford's new lean-burn engine, which will power the next generation of European cars for the 1990s. This new manufacturing facility is believed to represent the largest ever single investment in Britain's motor industry.

The professional team consists of Posford Duvivier acting on behalf of Ford (UK), and Mouchel and Partners forming part of Balfour Beatty Building's design team.

Doing business in Milton Keynes

SIR ROBERT McALPINE & SONS has been awarded a £15.3m design and build contract by *Milton Keynes Development* Corporation for the construction of phase 2 of the Central Business Exchange complex in Milton Keynes.

Construction of the four-storey block will be of steel frame above a reinforced concrete basement and ground slab on piled foundations. The external finish will be white marble *with structural glazing. Two* central atria will be fitted with automatic solar shading.

The building, with a total floor area of 14,550 sq metres, will provide retail units and showrooms at ground level with office accommodation on the mezzanine and four upper floors.

The work includes the instal*lation of four passenger lifts* and the provision of extensive parking facilities.

Planning Design Development will be acting as employers agents for the project which is due for completion in March 1990.

Chiswick office development project

PENTAGON DESIGN & CONSTRUCTION has won a contract worth £1.65m for high specification, long leasehold offices at Turnham Green, Chiswick. The contract is to lesign and build a high quality 25,550 sq ft of office development for John Willmott Estates in conjunction with Barclays Mercantile Business Finance.

Six individual three-storey business units are to be built to a high specification in a terrace ranging in size from about 2,000 to 3,000 sq ft. The units, due to be completed early in 1989, are to be offered to owner occupiers. The agents are Weatherall, Green and Smith.

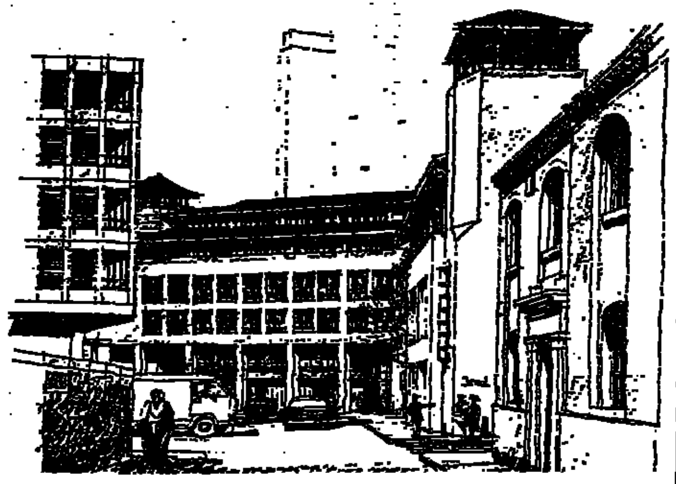
Bank clearing centre

Midland Bank is to move its national cheque clearing centre to Southwark to a riverside site next to the proposed Globe Theatre.

The clearing centre, currently housed in two buildings near Tower Hill tube, has to process about 3m cheques a day.

Midland has acquired a 1.2 acre site on a long lease. The new building will provide about 240,000 sq ft of office space, and has been designed in sympathy with the neighbouring Globe Theatre. Site clearance is due to start shortly, and construction is expected to start in spring next year, with completion in 1991. The management contractor is R.M. DOUGLAS, and it is belived the cost is in the region of £30m.

The structure will have a reinforced concrete frame on piled foundations. The building will be in traditional brickwork with a clay tile roof.



A drawing of Midland Bank's proposed cheque clearing centre.

Norwich Union headquarters

Contracts totalling £11m have been awarded to four of the WILLMOTT DIXON construction companies.The largest, worth £5m and involving the refurbishment and alteration of an old factory in Norwich, has gone to Bush Gould of Norwich. The contract, which will provide an office headquarters for the Norwich Union investment department, will last for a year.

Bush Gould is also working on a £253,000 contract to build *two shop units at Gorleston for* Property International, and on a £1m contract which will provide an extension to Anglian Windows' central glass works in Norwich.

Willmott Dixon London is engaged on the refurbishment of the ground floor of Faraday Building North in Carter Lane, EC4 for British Telecom at a cost of £479,000.

The specialist house building company, Willmott Dixon Housing of Shefford in Bedfordshire, has won a £1.7m contract to build council housing for Aylesbury Vale District Council.

A.E. Symes of Leyton has also been awarded a £1.7m contract to refurbish a building in Chapter Street, SW1 to form three penthouse flats for Fingleton.

West End office building

TROLLOPE & COLLS CONSTRUCTION has been awarded a £10m commercial project in St Martin's Lane, WC2, by Grosvenor Square Properties Group.

The contract is for the construction of a five-storey office building, with a ground floor, lower ground floor and sub-basement.

Behind a traditional, reconstructed Victorian facade of red-brick and stucco work, will be 73,500 sq ft of office accommodation, a marble reception area and a large central atrium. The building will be topped with a mansard roof with dormer windows.

Work will commence early in the New Year with completion in two years.

Retailing in Harlow

EMSON CONSTRUCTION has won its largest order. The £8m scheme awarded by Citygrove Developments is for the construction of 220,000 sq ft of retail space at the Harlow Retail Park.

Leading retailers such as Homebase (a Sainsbury group company), Unipart, Allied Carpets and the ELS furnishing group will move into the buildings, as will Wimpey, with a drive-in restaurant along with nine industrial users

The whole development at the Harlow Retail Park will comprise 11 separate retail units and three restaurants, with ample car parking and full landscaping.There will also be a seven-screen Odeon cinema complex on the site. Work is already under way for completion in early 1990.

FT UNIT TRUST INFORMATION SERVICE

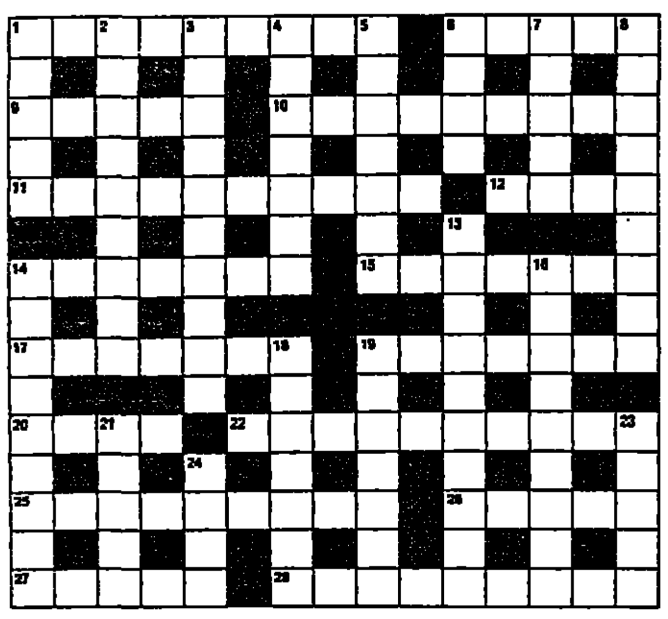
AUTHORISED UNIT TRUSTS

London & Manchester (Tst Mgmt) Ltd (1000)H
Winslade Park, Exeter EX5 1DS 0392 282673

American	5	28.22	28.53	30.29	0.8	40828
General	5	48.03	48.24xd	51.21	3.6	40829
Income	5	44.56	44.94	47.71	5.6	40830
International	5	34.06	34.37	36.49	0.9	40831
Japan	5	48.15	48.42	51.40	—	40832
Tst of Inv Trusts	5	35.94	36.51xd	38.76	2.0	40833

CROSSWORD

No. 6,785 Set by QUARK



ACROSS

1 Change for reading matter (order by Mr Baker?) (4.5)
6 Sign of hesitation when short cover comes round wet (5)
9 Snake taking top off plant (5)
10 Of which litter is composed (5.4)
11 Complaint – at beginning of summer, fruit a bit short? It is (10)
12 Bring up the end (4)
14 Fix round books in a raised pattern (7)
15 You're well in when you make it (7)
17 Supervisor organising one farm (7)
19 Man (kind) (7)
20 Test mark wrong in English and Maths initially (4)
22 In a smash, winner (i.e. TT) is to get into a tangle (10)
25 Child is after stolen number – one from a race (9)
26 This spot shows area of ignorance (5)
27 Run over again cases in material (5)
28 I'm taken to get through "green" after change (9)

DOWN

1 Instruments to introduce tax, we hear (5)
2 Strange stock exchange character is provider of maintenance (3-6)
3 Fear more fixed, it is said, in the mainland (5-5)
4 A collection of Turners could be hanging on it (3-4)
5 There's need to encourage, or I shun being schooled (7)
6 Perhaps drunk above the average (4)
7 It's the church's place to give answer in note form (5)
8 Record broken – tried to reject as untrue (9)
13 That can go from top to bottom (10)
14 Extra course with reference to a new student (9)
16 Revising again? Rush it in before end of Aug. (2-7)
18 Boy brought up round the north to do better continuously (3-4)
19 Forms set with acre (ground) (7)
21 In order to be classically elegant (5)
23 Duck down (5)
24 Look up and down (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday November 26.

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.
OFFER PRICE
The price at which units may be bought.
BID PRICE
The price at which units may be sold.
CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.
TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ – 0001 to 1100 hours; ♦ – 1101 to 1400 hours; ♠ – 1401 to 1700 hours; ♣ – 1701 to midnight.
HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.
FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out last Friday.
Other explanatory notes are contained in the last column of the FT Unit Trust Information pages.

FT UNIT TRUST INFORMATION SERVICE

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Swiss Life Pen Tst Man Co Ltd (1000)H						
99-101 London Rd, Sevenoaks						0732 450161
Equity Dist	5	329.5	333.6	353.0	3.07	41453
Equity Acc	5	422.9	428.2	453.1	3.07	41454
Fixed Int Dist	5	118.8	120.5	124.9	9.00	41455
Fixed Int Acc	5	210.7	213.7	221.4	9.00	41456
TSB Unit Trusts (y) (1000)F						
Charlton Pl, Andover, Hants. SP10 1RE						0264 63434
TSB American	6	93.61	94.39	100.41	2.18	41457
Do Accum	6	100.47	101.30	107.77	2.18	41458
TSB Brit Growth	6	54.13	54.13xd	57.59	3.28	41459
Do Accum	6	56.65	56.65xd	60.27	3.28	41460
TSB European	6	52.41	53.08	56.47	1.11	41461
Do Accum	6	53.84	54.52	58.00	1.11	41462
TSB Extra Income	6	146.43	149.71	159.27	5.76	41463
Do Accum	6	189.01	193.25	205.58	5.76	41464
TSB Smaller Cos	6	53.92	53.92	57.36	1.97	41465
Do Accum	6	54.88	54.88	58.38	1.97	41466
TSB General	6	177.27	177.27	188.59	3.44	41467
Do Accum	6	306.84	306.84	326.43	3.44	41468
TSB Premier Income	5	47.55	48.01xd	50.01	8.85	41469
Do Accum	5	72.96	73.67xd	76.74	8.85	41470
TSB Income	6	267.69	267.69	284.78	0.50	41471
Do Accum	6	447.44	447.44	476.00	0.50	41472
TSB Pacific	6	205.95	209.16	222.51	0.32	41473
Do Accum	6	214.12	217.47	231.35	0.32	41474
TSB International	6	316.34	316.34xd	336.55	0.89	41475
Do Accum	6	399.76	399.76xd	425.28	0.89	41476
TSB Nat Resources	6	59.50	60.71xd	64.58	1.57	41477
Do Accum	6	63.07	64.34xd	68.45	1.57	41478
TSB Sicad Opps	6	79.60	79.60	84.68	2.68	41479
Do Accum	6	90.89	90.89	96.14	2.68	41480
Target Trust Mngrs Ltd (1600)H						
Target Hse, Gatehouse Rd, Aylesbury, Bucks.						
Admin: 0296 394000						Dealing: 01-379 0860
American Eagle	5	60.01	60.01	64.12	3.26	41482
Australia	5	7.489	7.489	8.004	0.10	–
Commodity	5	74.81	74.81	80.65	0.61	41484
Convertible	5	141.1	141.1xd	152.3	6.02	41485
Equity	5	153.0	153.0	166.0	3.17	41486
Euro Spec Sits	5	82.36	82.36	88.62	1.54	41487
Financial	5	30.10	30.10	32.60	2.09	41488

	Bid Price	Offer Price	Yield Gross	City-line
Local Authorities Mutual Invest. Tst.*				
2 Fore Street, London EC2Y 5AQ				01-588 1815
Property Oct 31	211.95		3.79	40825
Equity Oct 31	714.70		3.96	40826
Fxd Int Sec Oct 31	100.70		9.98	40827
* Available only to Local Authorities				
MIM Ltd				
Mngd Pens (Acc)	55.5	59.1	0.80	41007
Murray Johnstone-UT Mngmt				
Murray Exempt Funds				
Amer Expt Nov 9	38.0	39.5	2.39	41064
Euro Expt Nov 9	42.2	44.3	2.32	41065
Fixed Int Ex Nov 9	89.7	92.1	9.7	–
Japan Expt Nov 9	53.7	55.8	0.69	41066
Managed Ex Nov 10	38.8	40.3xd	4.71	41067
SE Asia Expt Nov 9	35.0	36.7xd	1.97	41068
Sm Cos Expt Nov 9	43.7	45.8xd	2.82	41069
UK Eqty Ex Nov 9	35.7	37.4	4.29	41070
New Court Property Fund Managers				
NC Property	191.5	209.3	–	41205
Phillips & Drew Fund Management Ltd				
PDFM Small Co Fd(11.11)	835.0	861.0	3.85	41138
Do Accum	842.0	869.0	3.85	41139
PDFM Int Expt Nov 10	123.0	125.2xd	2.70	41140
J. Rothschild Fund Managers Ltd				
Intl Exempt	93.66	94.73xd	2.92	40172

INSURANCES

AA Friendly Society
(Investment Mngt. H & G Inv Mngt Ltd)
AA Friendly Sy Nov 11 — 143.41 — 41607

OTHER UK UNIT TRUSTS

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

Norwich Union Asset Management Ltd

PO Box 124, Norwich NR1 1JS 0603 683986

	Bid Price	Offer Price	Yield Gross	City-line
NUAM Funds				
Managed Fund	54.0	56.9	–	43191
Stock Market Mngd Fund	51.6	54.3	–	43192
Equity Fund	55.5	58.4	–	43193
International Fund	48.2	50.8	–	43194
European Fund	50.3	53.0	–	43195
North American Fund	42.8	45.1	–	43196
Pacific Fund	59.6	62.8	–	43197
Property Fund	67.4	70.9	–	43198
Fixed Interest Fund	52.5	55.2	–	43199
Index Linked Sec Fund	53.9	56.7	–	43200
Deposit Fund	54.8	57.7	–	43201
NUAM Retirement Plans				
Mixed Fund	58.2	61.3	–	43202
UK Ordinary Share Fd	65.6	69.1	–	43203
International Fund	49.6	52.2	–	43204
Property Fund	65.6	69.1	–	43205
Fixed Interest Fund	57.3	60.4	–	43206
Index Linked Sec Fund	55.4	58.3	–	43207
Deposit Fund	59.0	62.1	–	43208
NUAM (MP)				
Managed Fund	753.7	793.4	–	43209
Equity Fund	1499.2	1578.2	–	43210
Property Fund	424.4	446.8	–	43211
Fixed Interest Fund	391.4	412.0	–	43212
Deposit Fund	224.2	236.0	–	43213
International Fund	126.7	133.4	–	43214
Index Linked Sec Fund	54.6	57.5	–	43215

Norwich Union Life Insurance Soc.

PO Box 149, Norwich NR1 3NG 0603 622200

	Bid Price	Offer Price	Yield Gross	City-line
Unitised Pensions				
With Profits Fd	107.87	113.55	–	43216
Managed Fd	117.65	123.84	–	43217
UK Equity Fd	121.44	127.83	–	43218
International Fd	117.85	124.05	–	43219
European Fd	115.21	121.28	–	43220
North American Fd	110.66	116.48	–	43221
Pacific Fd	113.82	119.81	–	43222
Property Fd	119.36	125.65	–	43223
Fixed Int Fd	101.56	106.91	–	43224
Intl Bond Fd	105.21	110.75	–	43225
Bldg Soc Dep Fd	102.95	108.36	–	43226
Pensionvestor* & Unit-Linked Plus*				
Fixed Interest Fund	285.9	300.9	–	43227
Index-Linked Sec Fund	157.2	165.5	–	43228
Ordinary Share Fund	480.0	505.3	–	43229
International Fund	127.1	133.8	–	43230
Property Fund	202.4	213.1	–	43231
Deposit Fund	184.4	194.1	–	43232
Mixed Fund	324.3	341.4	–	43233
Norwich Units October 25	822.3		–	43234

*Prices as at November 8

Pearl Assurance (Unit Funds) Ltd

252 High Holborn, London WC1V 7EB 01-405 8441

	Bid Price	Offer Price	Yield Gross	City-line
Prop. Dist. (Gross)	175.8	185.1	–	43235
Prop. Acc. (Gross)	296.6	312.3	–	43236
Equity (Gross)	669.0	704.3	–	43237
Managed (Gross)	480.8	506.2	–	43238
Prop. Acc. (Net)	137.1	144.4	–	43239
Equity (Net)	156.5	164.8	–	43240
Managed (Net)	147.8	155.6	–	43241
Internat'nal (net)	132.3	139.3	–	43242
Gilt & Fxd Interest	102.2	107.6	–	43243
Money Fund	101.8	107.2	–	43244
Pearl Assurance (Unit Linked Pens) Ltd				
Ret Man (Series 1)	459.1	483.3	–	43245
Ret Man (Series 2)	155.7	163.9	–	43246
Ret Man (Series 3)	102.5	102.5	–	–
Ret Cash	126.7	133.4	–	43247
Ret Cash (Series 3)	103.9	103.9	–	–

Phoenix Assurance Co Ltd

Providence Capitol Life Assc. Co Ltd – Contd.

	Bid Price	Offer Price	Yield Gross	City-line
Nat Resources Initial	46.2		–	
Japan Growth Initial	187.8		–	
European Initial	73.1		–	
Residential Prop Init	116.5		–	
Swiss Equities Initial	32.8		–	
Hong Kong Initial	41.5		–	
UK High Inc Eq Init	61.7		–	
Int Fixed Interest Init	49.9		–	
Int Managed Init	46.9		–	
HIP Managed Init	101.7		–	
Broker Fund				
Towerhill Mngd Fd Acc	47.0	49.5	–	
High Performance	61.7	65.0	–	
YRA Executive Fd	77.1	81.3	–	
Investment Master	37.8		–	
H F. Speculator Fd	112.3		–	
£ High Inc Money Fd	103.2		–	
£ Global Growth Fd	103.2		–	
PEP Acorn II	101.9		–	
AAFS Int Man Fund	99.6		–	
Individual Pension Funds				
UK Equity Acc	207.8	219.2	–	
UK Fixed Interest Acc	163.3	172.3	–	
Intl Equities Acc	164.6	173.7	–	
UK Managed Acc	151.6	159.9	–	
Property Acc	188.2	198.6	–	
Money Acc	115.2	121.6	–	
Special Market Acc	129.4	136.6	–	
Japanese Acc	219.3	231.4	–	
North American Acc	102.6	108.3	–	
Pacific Acc	131.6	138.9	–	
Technology Acc	126.8	133.8	–	
Natural Resources Acc	89.0	93.9	–	
Japan Growth Acc	257.5	271.7	–	
European Acc	89.2	94.1	–	
Residential Prop Acc	123.4	130.2	–	
Swiss Equities Acc	32.7	34.5	–	
Hong Kong Acc	40.9	43.2	–	

Provident Life Assoc. Ltd

Provident Mutual Life Assc. Assn.

Prudential Assurance Co

Prudential Holborn Life Ltd

Prudential Holborn Pension Ltd

Prudential Pensions Limited

Regency Life Assurance Co Ltd

Reliance Mutual

Royal Heritage Life Assurance Ltd

Royal Life Insurance Ltd

Royal Liver Assurance

Save & Prosper Group (z)

Scottish Amicable

Scottish Equitable Life Assce. Soc.

Scottish Life Investments

Scottish Mutual Assurance Society

Scottish Mutual Investments

Scottish Provident Institution

Scottish Widows' Group

Shield Assurance Ltd

Skandia Life Assurance Co Ltd (z)

Standard Life Assurance Company

Sun Alliance Insurance Group

Sun Life of Canada (UK) Ltd

Sun Life Unit Assurance Ltd

Swiss Life Pensions Ltd

TSB Life Ltd

Target Life Assurance Co. Ltd.

Teachers' Assurance Company Ltd

Tunbridge Wells Equitable

UK Life Assurance Co Ltd

Wesleyan & General Assurance Soc

Windsor Life Assur. Co Ltd

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

UK LISTED

IoM AUTHORISED

OFFSHORE INSURANCES

FT UNIT TRUST INFORMATION SERVICE

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

BRITISH FUNDS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
	"Shorts" (Lives up to Five Years)					
2,250	Treas 11½pc 1989	99	11.72	18.7	22 Aug 22 Feb	1291
855	Treas 9½pc Cnv 1989	99	11.46	12.9	18 Oct 18 Apr	1348
500	Treas 3pc 1989	97xd	9.12	10.10	15 Nov 15 May	1327
1,400	Treas 10½pc 1989	99xd	11.66	7.11	14 Dec 14 Jun	1287
2,400	Exch. 10pc 1989	98	11.52	27.6	1 Feb 1 Aug	1250
2,000	Exch 11pc 1989	99	11.35	23.8	29 Mar 29 Sep	1256
601	Treas 5pc 1986–89	95	9.43	8.9	15 Apr 15 Oct	1329
535	Exch 10¼pc Cv '89	99xd	10.96	10.10	15 May 15 Nov	1255
1,000	Treas 13pc 1990‡‡	102	10.77	8.6	15 Jul 15 Jan	1300
1,400	Exch 11pc 1990‡‡	100	10.76	6.7	12 Aug 12 Feb	1257
1,250	Exch. 12½pc 1990	102	10.82	16.8	22 Sep 22 Mar	1262
550	Treas. 3pc 1990	91	9.01	3.10	8 Nov 8 May	1325
600	Treas 8¼pc 1987–90‡‡	96xd	10.50	8.11	15 Dec 15 Jun	1340
1,000	Treas. 8pc Cv 1990 ‡‡	98	8.95	9.6	16 Jul 16 Jan	4680
1,887	Treas. 10pc Cv 1990	98	10.61	19.9	25 Apr 25 Oct	1285
500	Exch 2½pc 1990	88xd	8.65	17.10	22 May 22 Nov	1270
2,200	Treas 11¾pc 1991	102	10.65	3.6	10 Jul 10 Jan	1292
400	Funding 5¾pc '87–91‡‡	91¼	9.83	1.9	5 Oct 5 Apr	1275
400	Treas. 3pc 1991	87xd	8.54	7.10	13 Nov 13 May	1326
646	Treas 10pc Cv '91 ‡‡	99	10.04	6.6	12 Jan 12 Jul	1286
1,550	Exch. 11pc 1991	101	10.45	19.9	25 Apr 25 Oct	1258
1,350	Treas. 8pc 1991	93xd	10.46	3.11	10 Jun 10 Dec	1335
900	Treas 12¾pc 1992‡‡	106	10.33	15.6	22 Jul 22 Jan	1297

Five to Fifteen Years

Over Fifteen Years

BRITISH FUNDS—Contd

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
	Undated					
359	Consols 4pc	44		27.6	1 Feb 1 Aug	1239
1,909	War Loan 3½pc‡‡	39		25.10	1 Jun 1 Dec	1352
154	Conv. 3½pc '61 Aft	61		25.8	1 Apr 1 Oct	1243
56	Treas. 3pc '66 Aft	32		1.9	5 Apr 5 Oct	1324
276	Consols 2½pc	27		1.9	5 Ja Ap Jul Oct	1238
475	Treas. 2½pc	27		25.8	1 Apr 1 Oct	1315
	Index–Linked	(b)	**			
500	Treas 2pc IL '90(84.6)	123	2.58	20.6	25 Jul 25 Jan	1311
650	Do 2pc '92xd(97.8)	104	2.91	17.8	23 Mar 23 Sep	1312
400	Do. 2 '94 (102.9)	95xd	3.36	10.10	16 Nov 16 May	–
1,000	Do. 2pc '96(67.9)	141	3.33	10.8	16 Mar 16 Sep	1313
900	Do 2½pc '01(78.3)	120¼	3.56	18.8	24 Mar 24 Sep	1316
800	Do. 2½pc '03(78.8)	117	3.62	14.10	20 Nov 20 May	1317
1,200	Do. 2pc '06(69.5)	119	3.65	13.6	19 Jan 19 Jul	1314
950	Do. 2½pc '09(78.8)	112¼	3.64	14.10	20 Nov 20 May	1318
1,350	Do. 2½pc '11(74.6)	116¼	3.64	18.7	23 Feb 23 Aug	1319
1,100	Do. 2½pc '13(89.2)	96¼	3.63	11.7	16 Feb 16 Aug	1320
1,700	Do. 2½pc '16(81.6)	104¼	3.59	20.6	26 Jan 26 Jul	1321
1,400	Do. 2½pc '20(83.0)	102	3.53	9.9	16 Oct 16 Apr	1322
900	Do. 2½pc '24xd(97.7)	86	3.48	10.6	17 Jan 17 Jul	1323

**Prospective real redemption rate on projected inflation of 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3 945. RPI for February 1988:103.7 and for September 1988 108.4

INT. BANK AND O'SEAS GOVT STERLING ISSUES

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
50	African Dv Bk 11¼Ln 2010	106	10.39	2.6	4 Jan 4 Jun	–
100	Asian Dev Bk 10¼pcLn2009	102	9.98	24.3	24 Mar 24 Sep	–
100	Australia 13¼pc 2010	127	10.31	24.6	28 Jan 28 Jul	–

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

LONDON SHARE SERVICE

AMERICANS—Contd

[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.)—Contd

[illegible]

INDUSTRIALS (Miscel.)—Contd.

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

LONDON SHARE SERVICE

LEISURE—Contd

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES—Contd

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND—Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES—Contd

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

7.74	Video Tape Rec 5p.	y	112	2.5	3.0	9.5	—	4591
0.84	Wilton Group	y	5½xr	—	—	—	—	3628

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ✱ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 535(3).
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- ♦ Not comparable
- ♦ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date.
- § No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p. y	71	......
Craig & Rose £1. y	780	−20
Finlay Pkg. 5p. y	85	−1
Holt (Jos) 25p. y	£31½	......

IRISH

Cap. 8½% Ln. 1991	£99⅛	......
9pc Cap Ln. 1996	£103¼	......
Fin. 13% 97/02	£124¼	......

Arnotts y	375	......
Carrol Inds y	165	......
Grafton Grp. y	145	......
Hall (R & H.)	150	−2
Helton Hldgs. y	55	−5
Irish Ropes y	165	......

TRADITIONAL OPTIONS
3-month call rates

Industrials	p
Allied-Lyons	40
Amstrad	18
BAT	40
BOC Grp	36
BSR	7½
BTR	26
Barclays	34
Beecham	40
Blue Circle	39
Boots	20
Bowaters	38
Brit Aerospace	42
Brit. Telecom	21
Burton Ord	18
Cadburys	31
Charter Cons	45
Comm Union	28
Courtaulds	26
FK1 Babcock	13
FNFC	21
Gen Accident	71
GEC	15
Glaxo	90
Grand Met	38
GUS 'A'	90
Guardian	16
GKN	28
Hanson	12
Hawker Sidd	48
ICI	85
Jaguar	22
Ladbroke	38
Legal & Gen	26
Lex Service	34
Lloyds Bank	29
Lucas Inds	48
Marks & Spencer	15
Midland Bk	35
Morgan Grenfell	28
NEI	12
Nat West Bk	45
P & O Dfd	48
Plessey	15
Polly Peck	28
Racal Elect	25
RHM	32
Rank Org Ord	63
Reed Intnl	38
STC	24
Sears	13
TI	32
TSB	9
Tesco	12
Thorn EMI	55
Trust Houses	24
T&N	16
Unilever	42
Vickers	15
Wellcome	42

Property

Brit Land	38
Land Securities	52
MEPC	50
Peachey	54

Oils

Brit Petroleum	21
Do. (P.Paid)	12
Burmah Oil	48
Calor	35
Charterhall	2½
Premier	5½
Shell	85
Ultramar	21

Mines

Cons Gold	100
Lonrho	38
RTZ	40

A selection of Options traded is given on the London Stock Exchange Report Page

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £940 per annum for each security.

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Speculative funds flee from the dollar

By Colin Millham

SPECULATIVE FUNDS fleeing from the dollar are threatening to cause problems for currencies supported by strong economic factors, such as the D-Mark and yen.

High yielding currencies, such as the Australian dollar are also becoming uncomfortably strong, and sterling would have similar difficulties if it were not for doubts about the British economy.

These doubts centre on inflation, and were highlighted by warnings in the Bank of England Quarterly Bulletin published last week. This week sees the release of UK data on producer prices; retail sales; money supply and bank lending, which will give further guidance on this subject.

Sterling gained over four cents against the dollar after the US presidential election on Tuesday - rising to the highest level since UK bank base rates began to climb in June - but over the same period lost about 2 pfennigs against the D-Mark.

Mr Nigel Lawson, the Chancellor, has to be careful to weigh every word he says at present. The City noticed that Mr Lawson said he is seeking to maintain as great a degree of exchange rate stability as one can.

The words "as one can" were taken to suggest the Chancellor could be looking for the opportunity of a slight sterling depreciation, while giving the appearance of talking tough.

On Friday support for the dollar by the Bank of Japan and West German Bundesbank failed to prevent the US currency falling to its lowest level against the yen since December 1987, and the weakest against the D-Mark since mid-June.

Lack of co-ordinated central bank intervention kept selling pressure on the dollar, but it should be noted that Armistice Day closed several financial centres, and probably limited the action of the monetary authorities.

The US presidential election has been a factor overhanging the dollar for some time, and political factors also had an impact on its Canadian counterpart last week.

Federal elections take place in Canada on November 21, and recent opinion polls have shown a very confusing picture. A poll published on Friday showed the ruling Conservative Party, and opposition Liberals almost level.

Earlier in the week the Bank of Canada supported a weak Canadian dollar, after a poll suggested the Liberals were 12 points in front of the Conservatives, but an even earlier poll showed the Conservative Party 6 points ahead of the Liberals.

Very high interest rates are making the Australian dollar an attractive resting place for speculative money at present. The Australian currency rose above 85 US cents on Friday, the highest level for four years.

This took it close to a technical resistance point, but if the Australian dollar breaks through 85.50 US cents the pace of advance could accelerate.

Demand for the currency has left it vulnerable to a sudden downward technical correction, but with interest rates at the present level in Sydney, traders do not rule out a rise to 90.00 US cents by the end of the year.

Mr Paul Keating, Australian Treasurer, said monetary policy will be kept tight, to prevent the economy overheating, and the current account deficit from getting too big. Earlier this month he said it was unlikely the Government would achieve its forecast of a current account shortfall of A$9.5bn in the year ending next June.

Australian interest rates are very high, boosted by several increases in the Australian Reserve Bank's rediscount rate, and by Mr Keating's comments.

Short term rates are nudging up towards 15 p.c., and bank lending rates are already at levels between 15.25 p.c. and 16.25 p.c.

The high yielding Australian dollar is starting to prove too attractive for comfort and this has prompted some intervention by the Reserve Bank.

£ IN NEW YORK

Nov.11	Close	Previous Close
£ Spot	1.8100-1.8110	1.7920-1.7930
1 month	n/a-n/a	0.50-0.49pm
3 months	n/a-n/a	1.43-1.41pm
12 months	n/a-n/a	4.80-4.70

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Nov.11	Previous
8.30 am	[illegible]	[illegible]
9.00 am	[illegible]	[illegible]
10.00 am	[illegible]	[illegible]
11.00 am	[illegible]	[illegible]
Noon	[illegible]	[illegible]
1.00 pm	[illegible]	[illegible]
2.00 pm	[illegible]	[illegible]
3.00 pm	[illegible]	[illegible]
4.00 pm	[illegible]	[illegible]

CURRENCY RATES

Nov.11	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	[illegible]	[illegible]	[illegible]
U.S. Dollar	[illegible]	[illegible]	[illegible]
Canadian $	[illegible]	[illegible]	[illegible]
Austrian Sch.	[illegible]	[illegible]	[illegible]
Belgian Franc	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]
Deutsche Mark	[illegible]	[illegible]	[illegible]
Neth Guilder	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]
Norway Krone	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]
Swedish Krona	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]
Greek Drach	[illegible]	[illegible]	[illegible]
Irish Punt	[illegible]	[illegible]	[illegible]

*All SDR rates are for Nov.10

CURRENCY MOVEMENTS

Nov.11	Bank of England Index	Morgan Guaranty Changes %
Sterling	[illegible]	[illegible]
U.S. Dollar	[illegible]	[illegible]
Canadian Dollar	[illegible]	[illegible]
Austrian Schilling	[illegible]	[illegible]
Belgian Franc	[illegible]	[illegible]
Danish Kroner	[illegible]	[illegible]
Deutsche Mark	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]
Guilder	[illegible]	[illegible]
French Franc	[illegible]	[illegible]
Lira	[illegible]	[illegible]
Yen	[illegible]	[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1975=100) *Rates are for Nov.10

OTHER CURRENCIES

Nov.11	£	$
Iran	121.10*	67.90*
Korea(Sth)	1242.65-1252.65	691.10-696.70
Kuwait	0.50700-0.50750	0.28000-0.28010
Luxembourg	65.95-66.05	36.30-36.40
Malaysia	4.8535-4.8665	2.6780-2.6820
Mexico	4135.00-4156.00	2280.00-2290.00
N. Zealand	2.8105-2.8155	1.5505-1.5630
Saudi Ar.	6.7920-6.7980	3.7505-3.7515
Singapore	3.5510-3.5595	1.9610-1.9640
S. Af (Cm)	4.3015-4.3235	2.3925-2.3955
S. Af (Fn)	6.6020-6.7235	3.6365-3.7035
Taiwan	50.40-50.65	28.05-28.15
U.A.E.	6.6505-6.6565	3.6725-3.6735

Rows above Iran (Argentina, Australia, Brazil, Finland, Greece, Hong Kong) are [illegible]. *Selling rate

EURO-CURRENCY INTEREST RATES

Nov.11	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	11¾-11½	11⅞-11⅝	11⅞-11⅞	12⅛-12⅛	12¼-12⅛	12⅛-11⅞
US Dollar	8⅞-8⅞	8⅞-8⅞	8⅞-8⅞	9-8⅞	9-8⅞	9⅛-9
Can. Dollar	10-9¾	10¼-10	10¼-10⅛	10¼-10⅛	10⅞-10⅞	11-10¾
D. Guilder	5⅛-5	5⅞-5⅛	5⅜-5⅛	5⅝-5⅜	5⅝-5⅜	5⅝-5⅜
Sw. Franc	3⅞-3⅞	4-3¾	3⅞-3⅝	4⅛-4	4⅛-4	5-4⅞
Deutschmark	4⅝-4⅛	4⅝-4⅛	4⅞-4⅞	4⅞-4⅞	4⅞-4⅞	5-4⅞
Fr. Franc	7⅞-7⅞	7⅞-7⅞	8-7⅞	8⅞-8⅞	8⅞-8⅞	8⅞-8⅞
Italian Lire	12-10	11⅛-10⅛	11⅛-11⅛	11⅞-11½	11⅞-11½	11⅞-11½
B. Fr. (Fin)	7⅛-7⅛	7⅛-7⅛	7⅛-7⅛	7⅞-7⅞	7⅞-7⅛	7⅞-7⅛
B. Fr. (Con.)	7⅛-7	7⅛-7	7⅛-7	7⅞-7⅛	7⅞-7⅛	7⅞-7⅛
Yen	2⅛-2	3⅞-3⅞	4⅛-4	4⅞-4⅞	4⅞-4⅞	4⅞-4⅞
D. Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Long term Eurodollars: two years 9⅛-9⅛ per cent; three years 9⅛-9⅛ per cent; four years 9⅛-9⅛ per cent; five years 9⅛-9⅛ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

POUND SPOT- FORWARD AGAINST THE POUND

[illegible]

Belgian rate is for convertible francs. Financial franc 66.50-66.60. Six-month forward dollar 2.60-2.55cpm 12 months 4.65-4.55pm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

[illegible]

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 36.50-36.70.

MONEY MARKETS

Currency factors set to dominate

CURRENCY FACTORS are likely to have a major impact on interest rate movements in the next month or so.

The performance of the dollar and the D-Mark will be particularly important, having a spin off effect on many European economies including Britain and France.

UK clearing bank base lending rate 12 per cent from August 25 & 26

London's financial markets are also waiting for guidance this week on whether higher UK bank base rates have reduced the growth in consumer demand and bank lending.

It this is not the case, and the economy shows further signs of overheating, another rise in base rates is not out of the question.

The pound rose sharply against the dollar last week, but did not quite manage to keep pace with the D-Mark.

Sterling interest rates fell back on Friday, in the face of the pound's strength against the dollar, but the picture could change if a weak dollar results in a tightening of the Federal Reserve's monetary policy.

In Frankfurt the Bundesbank will be trying to steer a steady course, keeping interest rates at a high enough level to dampen inflation, but not so high as to push the D-Mark up too sharply against the dollar or the French franc.

There should be few problems in monetary management this month. The Bundesbank drained a little liquidity from the banking system last week, and still allowed a slight decline in the Frankfurt rate for call money.

Nevertheless the Bank of France could yet be forced into higher interest rates, if speculative funds continue to be attracted into the D-Mark, widening the gap between the German currency and the franc within the EMS.

MONEY RATES

NEW YORK (4pm) — Treasury Bills and Bonds

[illegible]

LONDON MONEY RATES

[illegible]

FT LONDON INTERBANK FIXING

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS. Figures in parentheses show number of stocks per grouping	FRIDAY NOVEMBER 11 1988: US Dollar Index	% Change Since Dec.31.87	Pound Sterling Index	Local Currency Index	Gross Div. Yield	THURSDAY NOVEMBER 10 1988: US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX: 1988 High	1988 Low	Year ago (approx)
Australia (91)	151.96	+45.1	124.09	118.40	4.30	150.51	124.24	118.73	152.31	91.16	94.85
Austria (17)	98.34	-2.4	80.31	88.76	2.42	97.66	80.61	89.15	98.34	83.72	90.77
Belgium (63)	134.26	+30.2	109.64	121.35	4.17	132.63	109.49	121.35	139.89	99.14	101.55
Canada (125)	116.60	+5.6	95.22	103.22	3.36	117.45	96.96	104.18	128.91	107.06	102.38
Denmark (39)	148.21	+28.4	121.03	135.21	2.23	148.16	122.30	136.83	148.99	111.42	110.52
Finland (26)	129.19	+12.3	105.50	111.89	1.50	126.76	104.63	110.96	139.53	106.23	
France (130)	111.95	+30.0	91.42	104.09	3.12	110.46	91.18	104.09	111.95	72.77	83.21
West Germany (102)	85.67	+10.8	69.96	77.23	2.41	85.48	70.56	78.10	87.49	67.78	76.75
Hong Kong (46)	105.84	+18.9	86.43	106.10	4.77	105.50	87.09	105.77	111.89	84.90	84.90
Ireland (18)	131.20	+25.3	107.14	120.32	4.18	129.86	107.20	120.42	144.25	104.60	107.26
Italy (100)	86.73	+11.6	70.82	83.88	2.40	85.79	70.82	83.87	86.73	62.99	74.24
Japan (456)	182.95	+29.4	149.40	141.84	0.52	177.98	146.92	139.45	182.95	133.61	135.19
Malaysia (36)	139.69	+25.1	114.07	144.18	2.98	139.55	115.19	143.87	154.17	107.83	102.59
Mexico (13)	168.71	+59.9	137.77	421.49	1.29	165.83	136.89	414.64	180.07	90.07	193.69
Netherland (38)	109.57	+9.2	89.48	97.77	5.04	109.68	90.54	99.24	111.00	93.25	97.55
New Zealand (25)	74.25	-2.5	60.64	61.19	6.37	73.83	60.94	61.34	84.05	64.42	77.82
Norway (25)	122.20	+20.1	99.79	108.72	2.67	122.51	101.13	109.54	132.23	98.55	114.65
Singapore (26)	120.88	+24.2	98.72	109.32	2.48	120.41	99.40	109.20	135.89	97.99	97.57
South Africa (60)	123.66	-7.4	100.98	99.19	4.58	122.23	100.90	99.88	139.07	98.26	121.49
Spain (42)	152.36	+14.9	124.42	132.33	3.09	151.58	125.13	133.32	164.47	130.73	123.23
Sweden (35)	133.45	+34.6	108.98	119.57	2.21	133.19	109.94	120.62	135.89	96.92	98.30
Switzerland (56)	84.74	+1.5	69.20	76.44	2.21	84.47	69.73	77.35	86.75	74.13	82.87
United Kingdom (320)	137.47	+3.7	112.26	112.26	4.70	137.71	113.67	113.67	141.18	120.66	120.39
USA (577)	109.37	+4.8	89.32	109.37	3.70	111.62	92.14	111.62	115.55	99.19	101.00
Europe (1011)	114.86	+9.9	93.80	99.53	3.73	114.55	94.56	100.46	114.86	97.01	98.51
Pacific Basin (680)	178.61	+29.5	145.86	139.57	0.74	173.96	143.60	137.16	178.61	130.81	131.72
Euro-Pacific (1691)	153.12	+22.9	125.04	123.50	1.65	150.21	123.99	122.48	153.12	120.80	118.47
North America (702)	109.74	+4.6	89.62	109.01	3.68	111.91	92.38	111.18	116.07	99.78	101.07
Europe Ex. UK (691)	100.61	+15.4	82.17	91.81	2.96	99.98	82.54	92.42	100.61	80.27	84.93
Pacific Ex. Japan (224)	126.59	+31.5	103.38	108.33	4.42	125.70	103.77	108.41	128.27	87.51	89.88
World Ex. US (1889)	151.56	+22.0	123.77	122.71	1.72	148.80	122.83	121.77	151.56	120.26	117.59
World Ex. UK (2146)	135.18	+19.3	110.39	118.81	2.30	134.18	110.76	118.78	135.18	111.77	110.53
World Ex. So. Af. (2406)	135.43	+17.9	110.60	118.31	2.30	134.56	111.07	118.41	135.43	113.26	111.33
World Ex. Japan (2010)	112.47	+9.8	91.85	105.90	3.36	113.59	93.77	107.49	115.54	100.00	100.01
The World Index (2466)	135.36	+17.7	110.54	118.18	2.32	134.48	111.01	118.28	135.36	113.37	111.40

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local).
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Markets closed on November 11: Belgium and France.
CONSTITUENT CHANGES: Deletion: Plessey (UK). Name change: Wing Tai Dev. to Henderson Inv. (Hong Kong).

EUROPEAN OPTIONS EXCHANGE

[illegible]

TOTAL VOLUME IN CONTRACTS: 42,340
A=Ask B=Bid C=Call P=Put

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

[illegible]

BASE LENDING RATES

[illegible]

WORLD STOCK MARKETS

CANADA

TORONTO

Closing prices November 11

MONTREAL

Closing prices November 11

Total Sales 4,370,879 shares.

INDICES

NEW YORK — DOW JONES

	Nov 11	Nov 10	Nov 9	Nov 8	1988 High	1988 Low	Since compilation High	Since compilation Low
¢Industrials	2067.03	2114.69	2118.24	2127.49	2183.50 (21/10)	1879.14 (20/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	89.94	89.99	90.01	90.24	91.25 (3/3)	86.12 (4/1)	–	–
Transport	909.38	928.55	925.36	927.62	938.33 (25/10)	737.57 (21/1)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	182.55	185.22	184.03	186.28	190.02 (29/1)	167.26 (20/4)	227.83 (22/1/87)	10.50 (8/4/32)

¢Day's High 2107.04 (2132.82) Low 2063.48 (2103.31)

STANDARD AND POOR'S	Nov 11	Nov 10	Nov 9	Nov 8	1988 High	1988 Low	Since compilation High	Since compilation Low
Composite ‡	267.92	273.69	273.33	275.15	282.88 (20/10)	242.63 (20/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrial	308.11	315.00	314.61	316.75	327.53 (24/10)	277.86 (20/1)	393.17 (25/8/87)	3.62 (21/6/32)
Financial	24.58	25.14	25.12	25.25	26.42 (20/10)	21.51 (8/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	151.24	154.09	153.92	154.84	159.01 (20/10)	136.72 (20/1)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	291.48	294.63	294.04	294.76	309.33 (10/6)	262.76 (12/1)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	373.76	378.40	377.74	378.84	394.77 (18/7)	331.97 (12/1)	455.26 (26/8/87)	54.87 (31/10/72)

	Oct 21	Oct 14	Oct 7	year ago (approx.)
Dow Industrial Div. Yield	3.54	3.63	3.60	3.54
	Nov 9	Nov 2	Oct 26	year ago (approx.)
S & P Industrial div. yield	3.19	3.09	3.07	3.31
S & P Indl. P/E ratio	12.60	13.52	13.65	16.39

TRADING ACTIVITY † Volume Millions	Nov 11	Nov 10	Nov 9
New York	135.500	128.920	153.140
Amex	7.102	8.687	8.249
OTC	109.676	105.327	110.396

NEW YORK	Nov 11	Nov 10	Nov 9
Issues Traded	1,927	1,940	1,936
Rises	288	706	465
Falls	1,238	661	944
Unchanged	401	573	527
New Highs	9	21	15
New Lows	32	36	36

CANADA

TORONTO	Nov 11	Nov 10	Nov 9	Nov 8	1988 High	1988 Low
Metals & Minerals	2797.0	2832.8	2834.6	2846.7	3226.5 (5/7)	2238.7 (8/2)
Composite	3231.1	3259.3	3262.2	3278.2	3465.4 (5/7)	2977.9 (8/2)
MONTREAL Portfolio	1591.33	1604.97	1603.42	1615.51	1723.71 (5/7)	1305.06 (27/1)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Panhandle Pl	4,118,800	25½	—	Exxon	1,651,600	42⅝	−1⅛
RJR Nabisco	2,898,300	89⅛	−⅛	Sears Roebuck	1,504,700	40⅛	−1
Prime Computer	2,064,200	15⅛	+⅝	BankAmerica	1,413,400	17¼	−⅛
Pac Gas & Elect	1,759,200	17½	−⅛	AT&T	1,396,100	28⅛	−⅜
General Electric	1,676,800	44½	−1¼	IBM	1,385,100	116⅛	−3⅛

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ¢ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Nov. 11	Nov. 10	Nov. 9	Nov. 8	1988 High	1988 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1558.2	1564.1	1564.4	1562.7	1657.8 (9/8)	1170.7 (10/2)
All Mining (1/1/80)	744.5	752.0	749.3	749.3	847.8 (9/8)	532.4 (10/2)
AUSTRIA						
Credit Aktien (30/12/84)	223.40	224.40	224.70	223.40	225.48 (4/11)	163.98 (11/2)
BELGIUM						
Brussels SE (1/1/80)	(c)	5383.0	5376.40	5367.70	5383.00 (10/11)	3608.35(4/1)
DENMARK						
Copenhagen SE (3/1/83)	241.62	243.81	244.29	242.97	247.87 (1/11)	180.68 (4/1)
FINLAND						
Unitas General (1975)	728.1	728.7	730.5	733.8	772.1 (8/8)	530.6 (15/1)
FRANCE						
CAC General (31/12/82)	(c)	395.6	397.2	393.3	397.2 (9/11)	251.3 (29/1)
Ind. Tendance(31/12/87)	(c)	152.2	152.4	152.8	153.4 (4/11)	89.7 (29/1)
GERMANY						
FAZ Aktien (31/12/58)	518.25	524.33	530.32	530.63	542.21 (27/10)	396.40 (29/1)
Commerzbank (1/12/53)	1566.20	1583.6	1602.90	1605.20	1641.60(27/10)	1207.9 (29/1)
DAX (30/12/87)	1252.18	1263.34	1277.30	1287.88	1314.98 (28/10)	931.18 (28/1)
HONG KONG						
Hang Seng Bank (31/7/64)	2583.74	2577.01	2582.98	2587.02	2772.53 (12/7)	2223.56 (8/2)
ITALY						
Banca Com. Ital. (1972)	591.58	591.61	593.43	589.51	593.43 (9/11)	423.91 (9/2)
JAPAN**						
Nikkei (16/5/49)	28489.57	28166.42	28212.78	28007.27	28489.57 (11/11)	21217.04 (4/1)
Tokyo SE (Topix) (4/1/68)	2212.62	2176.57	2170.51	2145.73	2253.10 (2/8)	1690.44 (4/1)
NETHERLANDS						
ANP-CBS General (1970)	272.8	275.9	279.0	280.5	285.8 (26/10)	205.7 (4/1)
ANP-CBS Industrial (1970)	235.8	239.9	244.5	245.3	252.6 (31/10)	157.9 (11/1)
NORWAY						
Oslo SE (4/1/83)	419.04	420.12	421.48	419.64	423.64 (21/7)	327.78 (28/1)
SINGAPORE						
Straits Times Ind. (30/12/66)	1015.03	1014.12	1026.46	(c)	1177.87 (8/8)	833.60(4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1365.0§	1380.0	1394.0	1387.0	1451.0 (7/7)	1154.0 (4/5)
JSE Industrial (28/9/78)	1858.0§	1863.0	1856.0	1848.0	1869.0 (2/11)	1387.0 (12/2)
SPAIN						
Madrid SE (30/12/85)	289.47	291.31	(c)	293.08	301.63 (15/6)	225.50 (4/1)
SWEDEN						
Jacobson & P. (31/12/56)	3213.40	3238.80	3253.40	3244.10	3267.33 (4/11)	2148.5 (4/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	568.3	573.0	577.9	579.4	582.3 (21/10)	466.6 (13/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	476.3	474.9	471.0	475.8 (3/11)	401.0 (21/1)

**Saturday Nov. 12: Japan Nikkei (c) and TSE (c)

§ Subject to official recalculation.

Base values of all indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia. All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Friday 11 November 1988

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	47.7m	871	+4	Sumitomo Metal	22.5m	745	+7
Nippon Yusen	37.7m	780	+81	Japan Line	21.5m	470	+12
Kobe Steel	34.6m	700	+5	Nippon Oil	19.8m	1,360	+20
Showa Denko	24.1m	940	+28	Tokyokeiba	18.4m	1,410	+40
NKK	23.0m	880	+20	Mitsui OSK Lines	16.8m	760	[illegible]

4pm prices November 11

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A–A–A –								
27⅞	14	AAR	.44	1.8	17	73	24½	24¼	24¼	– ⅛
10⅛	9	ACM n				30	9¼	9⅛	9¼	+ ⅛
12⅛	10⅞	ACMIn 1.28a		11.		250	11¼	11⅛	11¼	
10⅛	10	ACM M n				131	10⅛	10	10	
12⅛	10⅝	ACMSc n1.25		12.		763	11	10⅞	10⅞	
10⅛	8⅞	ACMSp n1.01		11.		394	9¼	9¼	9¼	
6⅜	2⅝	AMCA	.12e	3.7		20	3¼	3¼	3¼	– ⅛
6¼	3⅛	AM Intl				2762	5⅛	4⅞	4⅞	– ¼
23¼	18⅛	AM Inl pf	2	9.2		11	22	21⅞	21⅞	– ⅜
51¼	28¾	AMR			8	2299	49	48	48⅛	– ⅞
27	25	ANR pf 2.67		10.		13	25½	25½	25½	
9½	5⅜	ARX			10	93	6	5⅞	5⅞	– ⅛
69¾	35¼	ASA	3a	7.6		455	40	39⅜	39½	– ¼
20¼	11	AVX	.12e	.7	12	5	17⅞	17⅝	17⅝	– ⅛
52⅞	42⅛	AbtLab 1.20		2.7	14	5275	46⅛	44⅞	45	– ⅝
21¼	15⅛	Abitibi g	1			120	16¼	16	16⅛	– ⅛
13⅞	8¼	AcmeC	.40	5.0		34	8⅛	d 8	8	– ⅛
8⅞	6⅛	AcmeE	.32b	5.1	27	32	6¼	6⅛	6¼	
29½	12⅞	Acuson			21	183	22¼	22	22¼	
17¼	14⅞	AdaEx 2.09e		12.		507	16¼	16⅛	16⅛	+ ⅛
18⅞	7½	AMD			15	11345	8⅛	8	8	– ¼
43½	28¼	AMD pf	3	9.7		67	31⅛	30¾	30⅞	– ⅛
8½	4⅝	Adobe				40	6⅞	6⅝	6⅝	
18½	16¼	Adob pf 1.84		11.		1	17	17	17	
21¾	19¼	Adob pf 2.40		12.		1	20⅜	20⅜	20⅜	
9⅞	6⅞	Advest	.12	1.8	20	197	6⅝	6⅝	6½	– ⅛
52½	39½	AetnLf 2.76		5.9	8	1900	47⅞	47	47⅛	– ¾
34⅛	20½	AlIPb s	.20	.7		511	29¾	29⅜	29⅜	– ⅜
18⅝	13	Ahmans	.88	5.5	9	883	16⅝	16	16	– ⅜
4⅝	1⅞	Aileen				60	4	3⅞	4	
53⅛	30⅝	AirPrd	1.20	3.0	10	2472	40⅞	39¾	39⅞	– 1⅛
19⅝	11⅛	AirbFrt	.60	3.2	16	66	19⅛	18⅝	18⅝	– ⅜
16¼	6⅛	Airgas			16	18	15⅛	15	15	– ⅛

Continued on Page 43

NYSE COMPOSITE PRICES

Continued from previous Page

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12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
50⅛	47	Xerox pf4.13		8.6		17	47⅞	47⅞	47⅞	+ ⅛
36⅝	19⅛	XTRA	.72	2.1	16	82	35⅛	34⅞	34⅞	− ⅛
29⅛	19⅝	XTRA pf1.94		7.2		100	27	27	27	− ⅛
59⅞	19⅛	Yorkin			15	1692	54⅞	53⅛	54⅛	+1
3⅞	2⅛	Zapata				930	2⅝	2½	2⅝	+ ⅛
27½	13½	Zayre	.40	1.6	169	2668	25⅝	25⅜	25⅜	− ⅝
15½	8⅞	Zemex	.40	2.8	18	23	14¼	14	14⅛	− ⅛
30	13	ZenithE				1274	19⅝	18⅞	18⅞	− ⅞
10⅛	9½	Zenin n .49e		5.0		107	9⅞	9¾	9⅞	− ⅛
4⅝	1	vjZeal.b				433	2⅛	2⅛	2⅛	− ¼
21⅝	13⅛	ZenNtl	.80b	4.8	7	124	16⅞	16½	16½	− ⅛
17⅛	11⅞	Zero	.44	2.8	14	275	16⅞	16½	16⅞	
29	15½	Zurnin	.68	2.6	16	1691	27	26	26⅛	− ⅞
11⅛	6	Zweig	1.04	10.		382	10½	10¼	10⅛	− ⅛
10⅛	9⅞	ZweigT n.08e		.8		1068	10	9⅞	9⅞	

*Sales figures are unofficial.Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months.g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months,plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales infull. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices November 10

[illegible]

OVER-THE-COUNTER

Nasdaq national market, 4pm prices November 10

[illegible]

Stock	Div.	Sales 100s	High	Low	Last	Chng
Wolohn	.20	9	78	16½	16	16
WolvEx			623	7⅛	6⅞	6⅞ − ⅜
Wortbg	.44	14	681	21⅛	20⅞	20⅞ − ½
Wyman	.80	15	43	16	15⅞	15⅞ − ⅛
−X−Y−Z−						
XL Dta		15	393	26⅛	25⅞	25¼ − 1
XOMA			259	12½	12¼	12¼ − ⅛
X-Rite s		14	628	9⅛	8⅞	8⅞ + ½
Xicor		12	1003	7½	7¼	7¼ − ⅛
Xyvsn			10	5	4⅞	4⅞ − ⅛
YelowF	.70	19	1911	31⅞	30⅞	30⅞ − ⅛
ZionUt	1.44		35	23⅛	23	23⅛ + ⅛

The Business Column

Lingering doubts about Daimler

One of the world's most unwieldy industrial conglomerates, Daimler-Benz, seems to be moving once again towards adding to its bulging portfolio, by taking control of Messerschmitt-Bölkow-Blohm (MBB), the arms and aerospace manufacturer.

After more than 18 months of political and financial manoeuvring, the way was cleared in Bonn last week to give Daimler the protection it wants against exchange rate losses from MBB's stake in the European Airbus project.

The takeover would create still more managerial complications for what has already become one of the world's most diversified engineering and technology concerns. With annual sales of over DM80bn (£25.3bn), the Stuttgart giant will account for more than 3 per cent of the federal republic's gross national product. Little over three years ago it was simply a specialised motor empire, admired around the world for its managerial focus.

Critics of the way Daimler has become steadily more diffuse and complex since 1985 through its takeovers of AEG (industrial electronics), and Dornier (aerospace), are sometimes reminded that the new group would still be less than half the size of General Motors. That is no commendation at all, in view of GM's notorious difficulties in integrating its supposedly "synergistic" acquisitions of Hughes Aerospace and Electronic Data Systems – troubles predicted by every observer of the countless diversification disasters which have occurredon both sides of the Atlantic over the past 30 years.

As at GM, the growing reliance of cars, aircraft and all forms of transport on integrated electronic control systems and the apparent potential for sharing technology between them, was one motivation for Daimler's move into industrial electronics (through AEG) and aerospace (Dornier). The other was the portfolio notion of reducing its reliance on the motor industry.

Mr Edzard Reuter, Daimler's chairman and architect of its dramatic diversification, is proceeding carefully with the crucial process of restructuring his empire into a more sensible order. Under reorganisation announced in late October which also cuts the unwieldy main board from 12 members to eight, parts of AEG, for instance, will shortly be transferred to the newly created Deutsche Aerospace, whose troublesome Dornier unit may eventually lose its prized medical systems business to a more logical part of the group.

Cross-company sensitivities

Despite the immense complexities and cross-company sensitivities involved, Mr Reuter nevertheless maintains that Daimler needs only "three to five years" to develop a common culture, and an effective process for managing "synergies." This is less than half the time it has taken to integrate much smaller and less complex diversifications, such as Saab's similar "fly-drive" enterprise.

Even after the restructuring is complete, the sprawling group will still have to be studded with a dense network of co-ordinating committees, unless Daimler can find some bureaucracy-free way of managing all the linkages between its various units without destroying their market-responsiveness and motivation.

Such a breakthrough is unlikely, given that it has taken several decades of experience for less diversified multinationals such as Unilever and Procter & Gamble to achieve fairly flexible co-ordination mechanisms.

Far more probable is that Daimler will eventually feel forced to simplify the task by divesting some of its least logical parts, with AEG's household appliances at the head of a long list. Some streamlining of its electronics interests may also be forced on it for anti-trust reasons. But even this will leave a construct whose logic remains doubtful for many years to come.

Edzard Reuter must thank his lucky Mercedes star that his is not an American or British conglomerate, prey to the attentions of a break-up specialist.

Christopher Lorenz

THE MONDAY INTERVIEW

Always poised for challenge

Louise Kehoe and **Jane Rippeteau** speak to Robert Noyce, a founder of the semiconductor industry

"I'M AMAZED at how much change we've wrought in the world in the last 30 years," says Robert Noyce. "You don't always realise it when you're in the midst of it. It's like climbing a mountain. It's only when you get to the top and look down that you say, 'Wow, that was a long way we climbed up'."

Robert Noyce, the co-inventor of the integrated circuit and holder of 16 patents for semiconductor devices, methods, and structures, has been responsible for more of that change than almost anyone else. He was a founder of Fairchild Semiconductor, one of Silicon Valley's most productive start-ups. He went on to found Intel, where he is now vice-chairman. And he is also the newly appointed chief executive of Sematech, the US semiconductor industry's research and development consortium. Over a 35-year career, he has been instrumental in building the $40bn microchip market that provides the base for today's information technology industries.

Mr Noyce's warm smile and Mid-West charm belie an intensity and drive that has fired the ambitions of his colleagues. He loves challenges: the cerebral "mountaineering" involved in creating ever denser, faster semiconductor chips, or the physical challenges of his favourite sports, skiing, hang gliding, scuba diving and flying.

But perhaps his greatest challenge will come in leading Sematech's efforts to reclaim the US's premier position in the technology of manufacturing chips. Sematech was formed in 1987 as a consortium of industry members representing the bulk of US semiconductor producers. It is jointly funded by industry and government, and involves an extraordinary level of co-operation between US firms in an effort to advance technology and fight off competition from Japan.

Running Sematech was not a job Mr Noyce accepted without reservation. At 61, he claimed he was too old for the job. But after participating in a fruitless year-long search for a chief executive, he offered his services. "Finally, it dawned on me that this was just far too important to let somebody else do it. I had to do it myself."

His appointment has given Sematech a boost of confidence in its dealings with Washington and throughout the US semiconductor industry. "Bob Noyce is the ideal choice to run Sematech," says Mr Charles Sporck, president of National Semiconductor. Mr Sporck began his semiconductor career 30 years ago working with Mr Noyce at Fairchild Semiconductor.

Despite being reluctant at the start, Mr Noyce is fully committed to his task. He has been a champion of the US semiconductor industry in its fight against "unfair" foreign competition for over a decade. As a founding member and the first president of the Semiconductor Industry Association, he played a significant part in taking the industry's message to Washington.

Mr Noyce rejects charges that his industry has turned to protectionism in the controversial semiconductor trade agreement between the US and Japan. The agreement, now two years old, sets minimum cost-based prices for Japanese memory chips. It "simply enforces trade laws already on the books," says Mr Noyce. "The agreement is being criticised now because the price of a D-ram (dynamic random access memory) chip is high and supply is limited," he says.

"The shortages are because in 1985 and 1986 the Japanese didn't build the capacity they should have for when the upturn came. If the price had been $10 (per chip) we never would have dropped out." Intel, along with several other US chipmakers, quit the D-ram market in the mid 1980s, but is now re-entering through a sourcing agreement with Micron Technology of Idaho.

Mr Noyce regards the situation as the emergence of monopoly pricing which the Japanese intended all along. Prices up to about $5 per chip are fair because "they are at or just above cost. Above $5, those prices are opportunistic. The only objective of dumping is to establish a monopoly so that you can charge higher prices later on," he says.

A bigger problem is the competitive pressure Japanese companies are exerting on the chip industry's customers – from mobile radios to robotics controllers to laser printers. "RCA is out of computers; GE is out of consumer electronics. As the Japanese chip away at these businesses, we lose customers. We must make sure the PC (personal computer) business doesn't go to Japan as well," says Mr Noyce.

Mr Noyce also criticises US trade and industrial policies. Until recently, he claims, the US government has ignored high technology. Japan has focused its attention upon selected "knowledge-based" industries. Traditional resource-based industries such as oil, agriculture and forestry have soaked up investment and distracted the attention of US policy-makers from the critical industries of the future, he complains. "In the US, the government is a regulator of industry, rather than a collaborator."

●PERSONAL FILE

1927 Born Burlington,Iowa
1949 Graduated Grinnell College
1953 PhD from MIT
1957 Co-founded Fairchild Semiconductor
1968 Co-founded Intel
1975 Chairman, Intel
1979 Vice Chairman, Intel
1979 Awarded National Medal of Science
1987 Awarded National Medal of Technology
1988 Chief Executive, Sematech

By agreeing to fund Sematech and giving more attention to the trade problems of the electronics industry, Washington has woken up to "the Japanese threat," says Mr Noyce. His task, over the next few years, will be to keep such interest alive.

While he has not always been optimistic about the future of the US semiconductor industry, he has not lost faith in the entrepreneurial spirit which he helped to foster in US high technology industries. This ability to create new ventures provides the US with an edge, he believes.

Born in Iowa and educated at Grinnell College in Grinnell, Iowa and at the Massachusetts Institute of Technology, Mr Noyce worked first at the Philco Corp in Philadelphia, Pennsylvania before moving to the West Coast in 1956. He was drawn there by William Shockley, the inventor of the transistor.

Mr Noyce regards Shockley as the "guru, after whom the disciples (also including Gordon Moore, now chairman of Intel) followed." He says that Shockley – who also attracted public attention for his controversial racial theories – created a somewhat unusual environment. "He would open a book and a fire cracker would go off. Or he'd pull roses out of his breast pocket."

But one year turned out to be enough. He and seven other young engineers, known in Silicon Valley as the "Traitorous Eight," left Shockley to form Fairchild Semiconductor. Fairchild's early employees went on to found the semiconductor giants of Silicon Valley – Intel, Advanced Micro Devices and National Semiconductor.

Noyce and Moore founded Intel in 1968. The company's annual revenues have grown to $2bn and it is the leading supplier of microprocessors, the "brains" behind personal computers and a host of other electronic inventions.

On reflection, Mr Noyce says that one of his greatest satisfactions is "having developed a meritocracy." Contrasting the atmosphere at the west coast electronics firms favourably with his first business experiences under "east coast management," Mr Noyce says of Intel and its aggressive cousins: "The new companies are based on knowledge, not position. Position power is not as important as knowledge power. Expertise is recognised. (By necessity) a fast-growing company is always trying to expand its people beyond their experience level."

This management style is created partly "by listening to people and seeking out opinions. People get used to being heard and feeling responsible." He says Intel managers try to convey the feeling among employees that "nobody else is responsible. You are."

Prima donnas are not appreciated at Intel. The company's executives practice "constructive confrontation" and nobody is beyond challenge. It is an exacting, disciplined atmosphere, but one that has hardened the company to the challenges of a highly competitive market-place.

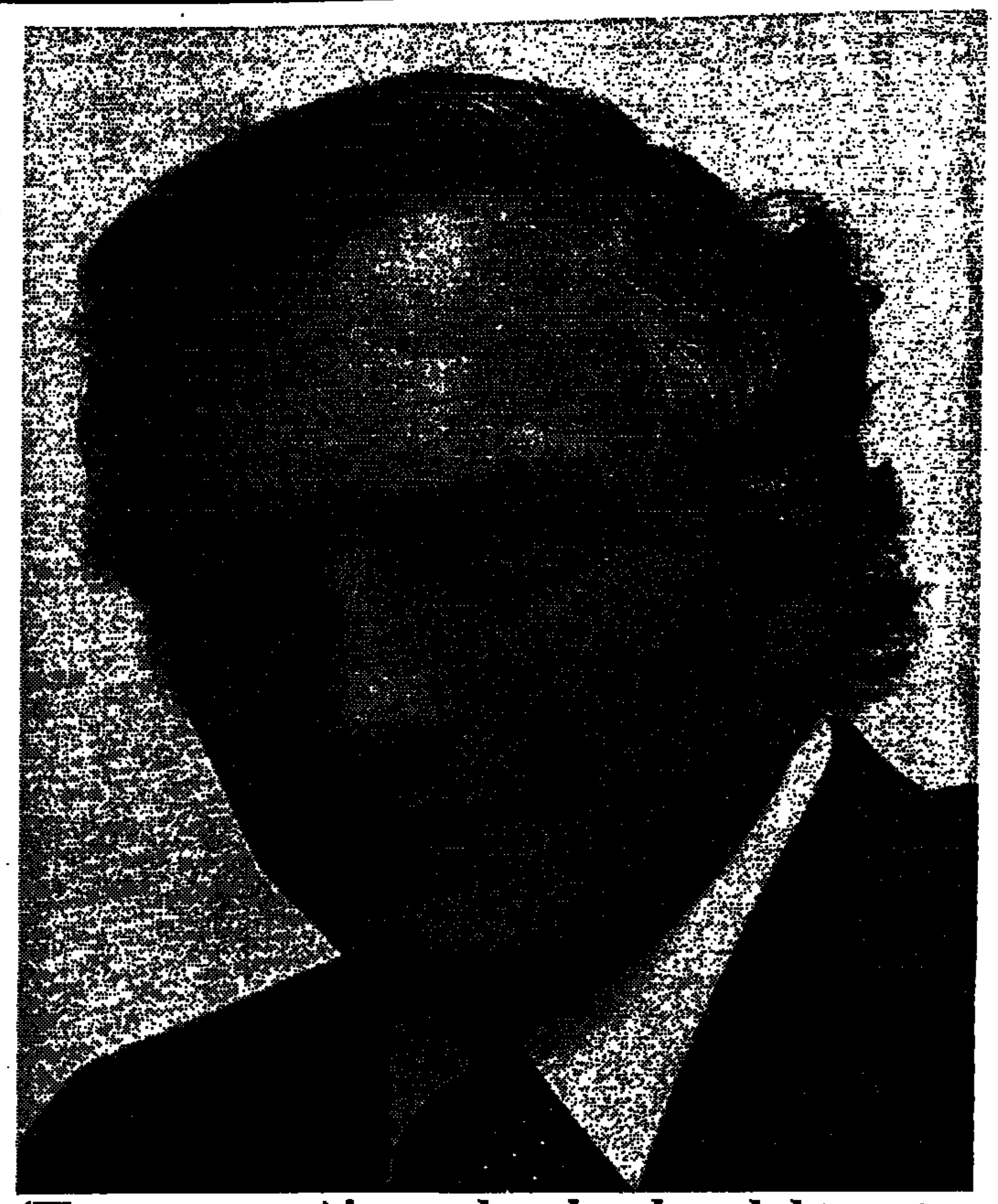
Mr Noyce talks of himself as no more than an equal partner in the organisation. "I never felt superior to anyone in the company. My feeling is, 'We're all in this together'."

He believes that salaries and stock option schemes are only temporary incentives to new recruits. A far more important factor in attracting and keeping talented people is the "sense of self worth" that entrepreneurial management engenders.

The usual perks that one would expect to go along with the role of vice chairman of a $2 billion company are not apparent at Intel. Mr Noyce's office, like those of dozens of other Intel executives, is a small cubicle separated from others only by shoulder-high dividers.

In recent years, Mr Noyce has withdrawn from the day-to-day management of Intel. He has become an unofficial spokesman for the industry and spends time in Washington trying to improve the industry's relations with the government. Despite taking on the onerous duties of running Sematech, Mr Noyce will retain his position at Intel.

His guiding force is still felt there. "It is much more difficult to redirect the bullet after the gun has been fired. I like to be involved in determining which direction the gun is pointed," he explains.



'The new companies are based on knowledge, not position. Position power is not as important'

Lunatic asylum: still part of law's language

JUSTINIAN

BY opening Broadmoor in 1863 as the first criminal lunatic asylum the nation was expressing its concern that mentally disordered persons who have been involved in serious acts of violence should be appropriately and humanely treated in conditions of adequate security.

Exactly 125 years later the same concern is exhibited, but Broadmoor (together with the three other Special Hospitals) has failed to shake off its historical associations with the system of criminal justice and the prison service.

The therapeutic community of what is now called a Special Hospital is still trammelled by the public's obsessive demands for tight security and for some residual desire to act punitively towards those mentally abnormal offenders who have committed the vilest crimes.

The Government, spurred on by a highly critical report on the quality of psychiatric services and management provided at Broadmoor Hospital, produced jointly by the National Health Service Health Advisory Service and the Department of Health's Social Services Inspectorate, announced last week that it is conducting the first full review of the role of the special hospitals.

Next year the four special hospitals, which are managed directly by the Department of Health, will edge nearer to the National Health Service when a Special Health Authority will assume direct responsibility, and general managers will be appointed as in the National Health Service. The special hospitals will then still be separate and distinct from the psychiatric hospital in the treatment of the mentally disordered.

Apart from their present formal dissociation from the NHS, the special hospitals' most tangible link with the prison system is in the representation of staff on the terms and conditions of service.

Although increasing numbers of nurses are joining the Royal College of Nursing, most are members of the Prison Officers Association which retains sole negotiating rights. This is a residue from the historical link with the criminal justice and prison systems.

However much individual nurses genuinely espouse and practice professional standards of care and treatment of patients in special hospitals – and many do – the philosophy and ethos of these institutions remains stubbornly impervious to liberal ideas of how to treat mentally abnormal offenders. Security for the public against the risk of escape by the few dangerous patients in special hospitals is rightly a paramount priority.

But guarding against escapes is achieved by taking the security on to the perimeter walls and not by inflicting high levels of security within the institution. Greater freedom of movement within the institution could be readily achieved if staff could be made to feel more secure in their work.

A popular saying among medical staff is that half of the population of a special hospital could be safely discharged; the trouble is in knowing which half. The doctors do know generally which of their patients require maximum security facilities. Many patients clearly do not need the high level of security imposed for all and necessary only for the few. The problem is exacerbated by the inability of the system to effect the prompt discharge of those who no longer need to be held in a special hospital (the average length of stay of a patient in a special hospital is about eight years). Recommended transfers to regional secure units or to general psychiatric hospitals are all too often inordinately delayed – a two to three years' wait is not uncommon. Thus patients languish unacceptably in special hospitals where they have long ceased to be relevant to their needs.

Constant locking and unlocking of doors, collective escorting of patients within the institution which detracts from individual attention, and the wearing of prison officer uniforms are persistent features of a regime dominated by security. Industrial action, ordered by the POA a year ago at Moss Side Special Hospital, which resulted in patients being locked in their rooms for 23 hours a day was a manifestation of trade union power out of keeping with the therapeutic community.

The challenge to the staff of a special hospital lies in the problem of appropriate treatment for mentally disordered offenders. Unlike appendicitis which presents the simple solution of a surgical operation to remove the grumbling appendix, mental disorder is altogether more complex. Some cases of severe depression are treatable by a course of ECT and anti-depressive medication. But mental disorder covers a multitude of conditions, some of which can be treated effectively while others only (if at all) over a protracted time scale. During lengthy treatment there continually hovers over the management and staff of the institution the public demand to curtail the patient's freedom.

Reflecting the public opinion about the danger of mentally abnormal offenders, the courts often send such people into prisons rather than give them the benefit of hospital treatment.

The Home Secretary can always transfer a prisoner to hospital, but once treatment is concluded the prisoner cannot be discharged as if he were an ordinary patient and returns to complete his prison sentence. In this context the special hospitals have been left behind psychiatrically in the methods employed by mental hospitals since 1959 in tackling mental ill health.

The conflicting role of the staff between being therapists and custodians, which has been a constant feature of the prison system, continues to infect the special hospitals. The courts for their part continue to endorse the ambivalence of society towards the humane treatment of mentally disordered offenders; the criminal lunatic asylum has not entirely disappeared from the language of the law.